

**NOMINATIONS OF:
BEN S. BERNANKE AND BRIAN D. MONTGOMERY**

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED NINTH CONGRESS
FIRST SESSION

ON

NOMINATIONS OF:
BEN S. BERNANKE, OF NEW JERSEY, TO BE CHAIRMAN OF
THE COUNCIL OF ECONOMIC ADVISERS
BRIAN D. MONTGOMERY, OF TEXAS, TO BE ASSISTANT SECRETARY FOR
HOUSING/FEDERAL HOUSING COMMISSIONER, U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

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WEDNESDAY, MAY 25, 2005

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:03 a.m., in room SD-538, Dirksen Senate Office Building, Senator Richard C. Shelby (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The hearing will come to order.

This morning, we will consider the nominations of two very distinguished individuals.

Our first nominee this morning will be Dr. Ben Bernanke, nominated to be a Member of the Council of Economic Advisers. Upon Senate confirmation, President Bush would designate him to serve as Chairman of the Council of Economic Advisers.

He currently serves on the Board of Governors of the Federal Reserve System. He is no stranger to this Committee. Before becoming a Member of the Board, Dr. Bernanke served as Chair of the Economics Department at Princeton University. Before arriving at Princeton, Mr. Bernanke had been an Associate Professor of Economics and an Assistant Professor of Economics at the Graduate School of Business at Stanford University. His teaching career also included serving as Visiting Professor of Economics at New York University and the Massachusetts Institute of Technology.

Dr. Bernanke has published many articles on a wide variety of economic issues, including monetary policy and macroeconomics. He also served as the Director of the Monetary Economics Program of the National Bureau of Economic Research. He received a B.A. in economics in 1975 from Harvard University, *summa cum laude*, and a Ph.D. in economics in 1979 from the Massachusetts Institute of Technology.

Our second nominee this morning is Mr. Brian Montgomery, nominated to be Assistant Secretary for Housing and Federal Housing Commissioner at the U.S. Department of Housing and Urban Development. This is an extremely important position as the Federal Housing Commissioner oversees the Federal Housing Administration, FHA. Historically, FHA has acted as a vital tool for expanding homeownership, a goal that I strongly share.

Most recently, Mr. Montgomery served as Deputy Assistant to the President and Cabinet Secretary. I believe his experience working with the President's Cabinet will help further coordinate housing activities across various Cabinet agencies.

Mr. Montgomery previously served at the Texas Department of Housing and Community Affairs and at the Texas Department of Commerce. His service at these departments give him a direct knowledge of the working of various housing and challenge development programs.

We look forward to hearing your statements this morning and to an interesting discussion to follow, and at the proper time, I would ask you to stand—not yet—and take the oath of office. I want to note Senator Cornyn, our distinguished and friend from Texas, is here, I believe, to introduce his fellow Texan. Senator Cornyn, you are recognized.

**STATEMENT OF JOHN CORNYN
A U.S. SENATOR FROM THE STATE OF TEXAS**

Senator CORNYN. Thank you very much, Mr. Chairman, and I appreciate your allowing me to appear today to commend to the Committee the nomination of Brian Montgomery to be Assistant Secretary of Housing and FHA Commissioner.

Mr. Chairman, you have already done a great job of talking about Mr. Montgomery's record. Let me just add a couple of things that you did not cover.

Brian has a great record of dealing with difficult and high-profile issues, whether it is serving as the lead White House official dealing with the Shuttle Columbia accident in February 2003 as President Bush's Cabinet Secretary, where coordination among a number of Federal agencies was critical, or working with other key agency officials to establish a more coordinated Federal approach to dealing with the aftermath of wildfires in California, or three hurricanes hitting several States in rapid succession.

Brian has demonstrated a proven ability to lead and to listen when challenges are thrust upon him. In particular, he has maintained a longstanding involvement in housing issues, from homeownership for the disabled to counseling for prospective low-income homebuyers. Serving then-Governor Bush at the Texas Department of Housing and Community Affairs, as you noted, he was one of only a handful of representatives of the Governor working with close to 400 career employees in one of the largest and most programmatically diverse State housing agencies in the country. And during that service, TDHCA expanded homeownership for people with disabilities and implemented a nationally recognized homebuyer education program.

Given the chance, I know that Brian will leave no stone unturned in his effort to assist low-income families and persons, in-

cluding the elderly and other persons with special needs. He will work hard to continue the Department's homeownership successes, focusing on preserving affordable housing and, as importantly, he will be an open-door leader in regular dialogue with you and this Committee.

I know he has the confidence of the Secretary, Alphonso Jackson, another good Texan, and we appreciate your willingness to take up this nomination. And I know Senator Hutchison joins me in commending this nominee to you and the rest of the Committee.

Thank you very much.

Chairman SHELBY. Thank you, Senator Cornyn.

Senator Allard, do you have an opening statement?

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Mr. Chairman, I do have a brief one.

Chairman SHELBY. You are recognized.

Senator ALLARD. I would like to thank you, Chairman Shelby, for convening today's hearing, and I am keenly interested in both of today's nominees both as Chairman of the Subcommittee on Housing and Transportation. And I am particularly focused on the position of the Federal Housing Commissioner, which is one of the key positions at the Department of Housing and Urban Development.

I would also like to take this opportunity to raise a serious concern that will impact HUD's ability to operate effectively and efficiently. The Department currently faces critical staffing vacancies. Eight of the 11 Assistant Secretary level positions are currently vacant. This includes a number of critical positions such as the General Counsel and Chief Financial Officer. Additionally, nearly half of the regional director positions are vacant, and this leadership vacuum will seriously inhibit HUD's effectiveness, particularly in light of the lean budget.

Right now, more than ever, we need to fill HUD's vacancies. This Committee, whether under Republican or Democrat leadership, has always made it a point to consider nominees in a timely fashion, and Senator Shelby has shown a consistent willingness to move promptly. However, we cannot consider nominees to fill the many vacancies until we receive nominations.

I am hopeful that the White House will be forthcoming with nominees. HUD has a difficult challenge, and its mission is not made easier nor is its work more effective when key positions remain vacant.

Finally, I would encourage our nominees to become familiar with the Government Performance and Results Act, which has been named PART assessment by the Administration. The Results Act is a key tool in giving them the focus and vision to carry out effective, efficient programs. I would exhort the nominees to become familiar with the appropriate strategic plans, annual performance plans, annual accountability reports, and financial statements that, properly utilized, can help you achieve success in meeting your mission.

Again, Mr. Chairman, thank you for giving the Committee an opportunity to review these nominations.

Chairman SHELBY. Will both of you stand and hold up your right hand to be sworn? Do you swear or affirm that the testimony you

are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BERNANKE. I do.

Mr. MONTGOMERY. I do.

Chairman SHELBY. Do you agree to appear and testify before any duly-constituted committee of the Senate?

Mr. BERNANKE. I do.

Mr. MONTGOMERY. I do.

Chairman SHELBY. Thank you. We will start with you, Dr. Bernanke. If either one of you want to introduce any members of your family that are here today, feel free to do it.

Mr. BERNANKE. Thank you, Mr. Chairman. My wife is a teacher at the National Cathedral School here in Washington, and she is giving an exam to her seventh graders this morning, so she was not able to come.

Chairman SHELBY. That is a good place to be.

Mr. BERNANKE. Yes, sir.

Chairman SHELBY. Mr. Montgomery, do you have any family?

Mr. MONTGOMERY. Yes, Mr. Chairman. I would like to introduce my wife, Katy, from California. She is an employee at the Department of Homeland Security.

Chairman SHELBY. Good. She needs to be there, too.

[Laughter.]

Gentlemen, Dr. Bernanke and Mr. Montgomery, your written statements will be made part of the record in their entirety. You proceed as you wish. It is your hearing.

STATEMENT OF BEN S. BERNANKE, OF NEW JERSEY TO BE CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. BERNANKE. Thank you, Mr. Chairman. I am very honored to be here today as the President's nominee to Chair the Council of Economic Advisers.

Created by Congress in 1946, the Council of Economic Advisers is a unique institution with a proud history. Its role is to provide the President with professional and objective advice on the entire range of issues bearing on the economic well-being of American citizens. I believe that, over the years, the Council has exerted an important positive influence on economic policymaking in the United States. The economic challenges that are facing the United States today—including the needs to address the implications of an aging population, to achieve long-term energy security while protecting the environment, and to reform our tax system so that it is simpler, fairer, and more supportive of economic growth—are as great as at any time since the Council was created. If I am confirmed, I will do everything in my power to ensure that the Council continues its tradition of providing the best possible advice and analysis and promoting sound economic policies.

Mr. Chairman, you were kind enough to give information on my background, which includes both academic and policy experience, and so I will not repeat that here, sir. But I would like to take this opportunity to thank you, Mr. Chairman, and the Committee for the prompt consideration of my nomination, and I would be very pleased to take any questions you might have.

Thank you.

Chairman SHELBY. Mr. Montgomery.

**STATEMENT OF BRIAN D. MONTGOMERY, OF TEXAS
TO BE ASSISTANT SECRETARY FOR
HOUSING/FEDERAL HOUSING COMMISSIONER,
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Mr. MONTGOMERY. Thank you, Mr. Chairman. Distinguished Members of the Senate Banking, Housing, and Urban Affairs Committee, I am honored to appear before you today as the President's nominee for Assistant Secretary of Housing and Federal Housing Commissioner at the Department of Housing and Urban Development. I, too, want to thank the Committee for arranging so quickly today's hearing to hear our nominations.

I also want to thank my fellow Texan, Senator Cornyn, for his very kind introductory remarks, and I want to say I am very much humbled by the opportunity to appear before you today.

I would like to say I am very happy my wife, Katy, is here. I wish my parents were also here today. They are mostly retired, living in Houston, Texas, these days. But even though they are retired, they still manage to work 2 to 3 days a week. My father serves as an ad litem attorney in a family law court in Harris County, and the other judges frequently mention to me how much they admire and respect my father. He has practiced law since the late 1950's. He is very proud of the work he does. All his clients are certainly impoverished. My mom still works as a secretary in the same hotel that she has for the last 20 years.

I am certainly, like all of us, very thankful to my parents for a number of things, but I am mostly proud of the value system that they instilled in myself and my three sisters. I would say it is a value system that reflects their very modest and very diverse childhoods. My dad was raised in east Texas during the Great Depression. His father worked there as a roughneck in the oil fields around Kilgore.

My mom, while she was born in McAllen, Texas, was raised in a small village in northern Mexico, living there until she was a teenager.

It was a chance encounter in San Antonio many years ago while my Dad was in the Air Force that brought them together. After serving his country, my Dad did something that no one else in his family had done, and that is, go to college via the GI bill, and ultimately to law school.

I am fortunate to have parents of very modest beginnings who taught me the values they learned growing up in their respective communities: honesty, hard work, and to always help one another.

Mr. Chairman, I believe these values have helped me make a difference in the lives of many citizens in the 12 years I have worked in the government sector. While I have been very fortunate to work for two Presidents, one Vice President, and one Governor, I am most proud of the time I spent at the Texas Department of Housing and Community Affairs. Let me say also, sir, that I was very honored to work side by side with some of the most dedicated and hard-working career staff around. And should I be honored by your vote of confidence, I look forward to doing so at HUD as well.

We have enjoyed many successes during my 3½ years at the State housing agency, some of which, Mr. Chairman, you touched on earlier.

To be sure, the need for affordable housing was profound in the metropolitan areas of Texas and remains so at present. However, the living conditions that existed along certain areas of the Texas-Mexico border were, and still are today, deplorable. The communities I am referring to are called “colonias.”

There are more than 1,200 colonias along the Texas-Mexico border with an estimated 400,000 residents. Most of the residents live in Third World conditions, without basic health and human services. They must also cope with some of the highest unemployment rates in America and incomes far below the poverty level.

I know this description firsthand because our agency spent a good bit of our time and resources within the border region. In a cruel twist, many of the colonias have names like Sunset Acres, Los Fresnos, or River Place—names that do not accurately represent the quality-of-life conditions these families endure every day.

While homeownership for all Americans will always be a very important goal, so are the most basic needs we take for granted, like safe drinking water. Many of our limited State funds at the time were spent trying to bring water to these communities, improve the roads, or remove the sewage. Some of our most memorable moments during my tenure at the State housing agency were seeing the faces of the residents the first time they had safe drinking water flowing to their neighborhood.

Of course, the profound need for safe and sanitary housing and living conditions did not end along the Texas border region. A good bit of our efforts were directed toward Texas’ rural communities as well as inner-city neighborhoods. There we directed much-needed low-income housing tax credits, rehabilitated homes that were in desperate need of repair, or leveraged our funds with a local unit of government or nonprofit agency via the low-income housing tax credit program as well. Again, it was the faces of the needy citizens that so vividly touched all of us.

Mr. Chairman, I offer this brief narrative since I know each of you have similar conditions within your own States. Cultures and regional differences aside, these people share one immutable fact: They need our help.

And speaking of people in need, I want to briefly say something about our elderly population, which happens to include my mom and dad. While the debate over Social Security reform continues around us, I hope the debate also gets Americans thinking about where these senior citizens are going to live, especially those of low incomes. It is difficult to imagine that by the year 2030, one-fifth of our population will be over 65 years of age.

Mr. Chairman and Members of the Committee, my pledge to you is a simple one: If confirmed, I will never forget that there is a human face at the heart of these issues. And in the case of elderly housing, the faces I see include my parents. All of these groups represent far more than numbers on a spreadsheet. They represent the lives of everyday Americans in need.

Finally, Mr. Chairman, whether it was leading the White House effort following the Space Shuttle Columbia disaster that ultimately led to the first major shift in America's space program in a generation, or working with the President's Cabinet on a variety of complex and challenging issues on a daily basis, I believe I have proven myself as a very capable manager and a steady leader. And if confirmed, I hope to bring those skills to the Office of Housing.

I am very grateful to President Bush and Secretary Jackson for their trust and confidence. And should you confirm my nomination, I pledge to work closely with you and with your staffs as we look for new ways to better assist our fellow Americans.

At this time, Mr. Chairman, I will try to answer any questions you or the other Senators may have, and I thank you very much for your time.

Chairman SHELBY. Senator Martinez has notified us that as a former HUD Secretary, he is very interested in what you are doing, both of you, and especially housing. He is tied up in the Energy Committee. He hopes to get here.

Mr. Bernanke, tomorrow morning here, the Secretary of the Treasury, John Snow, will testify regarding international exchange rates and policies. As you are well aware, many Members of Congress, including myself, find the continued imbalance of trade with China to be a significant concern. What is your assessment as to the desirability of the Chinese Government broadening the range in which its currency fluctuates or linking it to a basket of currency? If so, how would you recommend that the United States bring about such an action, if we can? And do you believe sufficient reforms have taken place within the Chinese banking and financial system to make such a change?

Mr. BERNANKE. Senator, first of all, as a general matter, for large economies like China and the United States, it is preferable to have a market-determined flexible exchange rate, and I do believe that China should move as expeditiously as possible toward loosening up its exchange rate regime.

The Treasury, to my understanding, has been in consultation with China helping them in various ways to prepare the ground from loosening their exchange rate, discussing the banking system, working with them on developing markets of foreign exchange. I think that they are perhaps some way from a full capital mobility regime. But I do believe that they are now ready to go to a more flexible exchange rate regime, and I would urge them to do that. That would be part of the solution to moving the United States back toward a more balanced trade position and a reduced reliance on foreign borrowing.

Chairman SHELBY. Are you concerned with such an imbalance of trade with China that we have?

Mr. BERNANKE. Senator, we have an imbalance of trade with China, and we have, of course, a large imbalance with the rest of the world. I think there are a lot of reasons for that imbalance, including the strength of the U.S. economy, and the fact that people want to invest here. So it is a very complicated phenomenon, but I do think that our trading partners, including China, are more oriented toward exporting and not sufficiently oriented toward domestic consumption and domestic investment. And I think that flexible

exchange rates in China and the rest of the world would be a step toward restoring a better balance in trade as well as in capital flows.

Chairman SHELBY. Moving on to GSE regulatory reform, as you well know, this Committee has made regulatory reform a high priority for the GSE's, that is, Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. I have repeatedly, and others on this Committee have, expressed views that a credible regulator, a strong regulator must have sufficient and flexible authority over capital standards, product approval, and the ability to place a troubled GSE into receivership if it came to that need.

In your opinion, what are the most important components in any reform measure? And do you share Chairman Greenspan's concerns regarding systemic risk in the GSEs' portfolios?

Mr. BERNANKE. Yes, Senator, I agree with the elements that you suggested. The GSE's perform a vital service in securitizing loans and helping to make the housing market more efficient. But the great size and complexity of their portfolios poses a risk to both the U.S. financial system and to the taxpayer ultimately if the taxpayer is called upon to intervene.

It is in everyone's interest to make sure that the GSE's are safe, sound, and able to perform their function. The elements you have described, including a strong regulator, the ability to invoke receivership if necessary, to set capital standards, and to set limits on activities, are all important components toward making the GSE's safe and ensuring the success of their mission.

I do agree with Chairman Greenspan that it is very important to take action in this area and that it is something that this Committee has made excellent progress in, and I commend you for your work on it.

Chairman SHELBY. Thank you.

Mr. Montgomery, FHA's share of the single-family mortgage market has fallen over the last 10 years from 11 percent to just over 3 percent today. I understand HUD has announced a new advertising campaign for FHA to make potential borrowers aware of FHA's lower costs compared to many subprime products. How much of FHA's declining market share do you believe results from borrowers being unaware of FHA as an option? And do you believe that FHA's role is to compete with the private market or rather to address needs not being met in the marketplace?

Mr. MONTGOMERY. Thank you, Mr. Chairman. I think a lot of us can recall a time not too long ago when we would open the Sunday newspaper, look in the home section, and you would see homes listed, FHA/VA, FHA/VA. And certainly you do not see that much more these days, sir, and you certainly do not see it in the housing market up here.

I think FHA is a very viable option for many low-income homebuyers. As you know, sir, we have to depend on a lot of lenders and others in the community to help market our product. But I think we could do a better job of educating consumers, Mr. Chairman. I think in a lot of cases consumers are not even thinking about FHA. So, I think we certainly need to raise awareness of it.

As far as competing with the private sector, sir, I think it is more of a product that will help more consumers become homeowners—

Chairman SHELBY. More complementary perhaps?

Mr. MONTGOMERY. Yes, sir, I would say so. The subprime market, sir, that you brought up, there is certainly nothing wrong with that. In fact, the subprime market has grown I believe tenfold since 1994 and 2003. But I have to believe in some of my discussions with HUD staff that some of those homebuyers who are in the subprime market could have fared much better under FHA. And if confirmed as FHA Commissioner, sir, I would like to work hard with your Committee and other Members to see if we could raise the profile of FHA, make it more of an option for prospective homebuyers out there.

Chairman SHELBY. Okay. Senator Reed.

STATEMENT OF SENATOR JACK REED

Senator REED. Thank you, Mr. Chairman, and thank you, gentleman.

First, Mr. Bernanke, you are a distinguished economist with a great record, and you are facing some serious challenges in the White House. One question I would like to follow up on the Chairman's point is that you mentioned in terms of our current international situation the attractiveness of individuals around the world to invest in the United States. But hasn't there been a shift from individual investment to more government central banking investment and buying our securities and funding our debt? Is that something we should be concerned about?

Mr. BERNANKE. Senator, it is true that a number of countries have begun to hold large quantities of U.S. treasuries as reserves. That includes, of course, China and Japan. But I do not think it is the case that it is the principal source of demand for U.S. securities. There still is very substantial private sector interest in U.S. securities. One needs to look not just at the net flows, but at the gross flows. What are the total purchases of U.S. securities from abroad. And if you look at the gross flows, you find that it is often the case that more than three-quarters of those securities being sold abroad are going to private sector holders.

I believe considerable interest remains in both the private sector and also from governments in holding U.S. securities.

Senator REED. But I think, again, correct me, the positions which foreign central banks have taken over the last several years have grown significantly. Is that accurate?

Mr. BERNANKE. That is correct, principally in China.

Senator REED. And that is a new dimension that was not as problematic 10 years ago or 20 years ago. Is that fair to say?

Mr. BERNANKE. I think that is fair to say. The U.S. dollar remains about 65 percent of world reserves, so it remains the principal world reserve currency.

I think the primary issue, though, Senator Shelby already alluded to, is the exchange rate regime. If the exchange rate regime were loosened up, it would not be necessary or desirable for China to accumulate more reserves. Therefore, I think that is the basic issue.

Concern has been raised as to whether if China were to stop purchasing U.S. treasuries, would that have a significant impact on interest rates? I think that it might have a measurable effect, but I do believe that U.S. financial markets and world financial markets are sufficiently deep and liquid and there is sufficient private interest in U.S. securities that moderate adjustments in these reserve positions are not a risk to U.S. interest rates or the economy.

Senator REED. But on the other side of the coin, providing for a different exchange rate is the possibility that they will stop buying U.S. securities to hold. That will affect interest rates; most people are concerned now about the housing market. How do you see that playing out?

Mr. BERNANKE. Senator, as I said, you are quite correct that if China were to sharply change its holdings of U.S. treasuries, that might have a measurable impact on our interest rates. However, I do not think that it would be a large or dangerous change in interest rates. I think it is worth noting that our current low rates of interest in the United States are not unique, that other countries—France, the United Kingdom, and others, and, of course, Japan—have interest rates that are lower than ours. So, I do not think it is really the case that foreign central bank holdings of U.S. securities are the primary reason why our interest rates are as low as they are.

Senator REED. Let me just change topics briefly, related to the issue of trade, and that is the fact that—and you have spoken or written about this—the plight of workers who are displaced by the movement of jobs overseas.

First, could you tell us how serious you think that is? And, also, is it a situation that is getting worse or it continues to be at a steady level?

Mr. BERNANKE. Senator, first of all, it is certainly a problem when any American loses a job, whether it be to international trade, whether it be to new technologies, whether it be to changes in business or demands. So, I think it is very important that we pay attention to that issue, make sure that people who lose jobs are assisted in any way we can, whether it be through education, through trade adjustment assistance, whatever mechanism we have. So that is an ongoing problem, and I, in no way, want to diminish that.

I think, however, that the U.S. labor market, after a period of weakness earlier in this decade, has been showing improvement. The unemployment rate, of course, is down. Unemployment insurance claims are down. The job growth, of course, has been rising quickly. Part-time work has been reduced and people are more able to find full-time jobs.

So overall the labor market does seem to me to be improving significantly. There is still a ways to go, and in particular, I think we need to see some increase in real wages before we are really satisfied with what is happening in the labor market. But relative to a couple of years ago, I think the labor market has improved, and I hope it will continue to do so.

Senator REED. Mr. Chairman, I have some questions of Mr. Montgomery, but I would be happy to wait for a second round.

Chairman SHELBY. Certainly. Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

As you may or may not be aware, Mr. Bernanke, I am strong advocate of the Government Results and Performance Act, and as you are probably aware, it promotes outcome-based management and accountability through measurable results. My question is: During your tenure in this appointed position, what key performance goals do you want to accomplish and how will the Congress know whether you have accomplished it?

Mr. BERNANKE. Senator, I endorse your position. I am aware of the Office of Management and Budget's PART program. In general, I think Government programs should be set to various criteria. Are they appropriate Federal responsibility? Are they a high priority? And once they are undertaken, do they have measurable effects, do they have measurable outcomes?

One of the strengths of economics, I think, is we understand how to do cost/benefit analysis; we know how to try to measure outcomes. And I will certainly do the best I can to bring this Council of Economic Advisers into the budget process wherever I am able to do so and to insist on accountability and measurability in the Government budget.

The real cost of Government is really not the taxes we collect, but really the whole spending, all the resources that the Government takes out of the economy. And it is extraordinarily important that we make sure that those resources are used as effectively as possible. I entirely endorse that view.

Senator ALLARD. Let me just bring up a little bit on balance of trade. I know that the Chairman asked about it. I do not view balance of trade as a real problem. In fact, whenever our balance of trade numbers have been the highest in the negative for us, it has been during good economic times, and when they have been lowest is during the Depression and during the latter part of the 1970's when we had double-digit—the misery index and all that. And so I have always viewed that the balance of trade figures, whenever they got high, just reflected a great economy in the United States. I wonder if you might comment on that view.

Mr. BERNANKE. Senator, you are correct that a balance of trade deficit is not an indicator necessarily of a weak economy. We have a strong and fast-growing economy; very attractive to investment. We have a balance of trade deficit. Japan and Germany have large current account surpluses, and they are envious, I think, of the rate of growth that we are able to achieve in this economy. So there is certainly no simple relationship between the two.

I do think that over a period of time it would be desirable for us to achieve a more balanced trade, not necessarily a balance but something more in the direction of balance. And in part that would be facilitated by exchange rate policies, as Chairman Shelby alluded to, and in part it would be associated with greater demand on the part of our trading partners.

One of our concerns here is that China, other East Asian countries, Europe, are not buying enough and not providing strong enough demand for our exports and our export industries. So we continue to be a very strong economy, which is why we import so much and why we attract so much capital. But I think it would be

desirable to have strengthened markets for ourselves and other countries as well.

Senator ALLARD. Mr. Montgomery, as you are probably well aware, I have worked with the Department of HUD on RESPA, and I have been rather vocal about HUD working with industry and trying to set up some guidelines as far as RESPA is concerned. And I continually get rumors that the Department is still on the verge of issuing a proposal on RESPA without any consultation with industry. Can you please provide assurances that HUD intends to stick by its pledge to consult with Congress, particularly Secretary Jackson, and produce any further reform proposals in a more consensus-based approach?

Mr. MONTGOMERY. Thank you very much, Senator. To answer your question, yes, sir, we absolutely will. The Department is doing more of a consultative approach, I would say, this go-round, I think reaching out to the various stakeholders to build a good consensus, to make sure we are not harming small businesses who are involved in that industry.

By the same token, this is the largest investment most Americans will make, and I think we would all be in agreement that the more transparent we can make the transaction for the homebuyer who goes in there, what they were told up front is certainly what is presented to them when they sit down to sign those many, many documents. But I just want to certainly reassure you, Senator, that we will make sure that it is a consultative process, certainly with the Members up here, those in the industry, small business, and certainly consumer groups as well, sir.

Senator ALLARD. I support the President's proposal on homeownership, and I do think that manufactured housing, particularly after the manufactured housing bill we passed here a year or two back, maybe three or four, I think has helped to establish some national standards. But I do think there is an opportunity for affordable homeownership here.

I would just like to have you say a few words on the role of manufactured housing in promoting homeownership.

Mr. MONTGOMERY. Thank you, Senator. There was a time when I was in Texas that there were more new manufactured homes sold in that State than there were bricks and mortar homes. That happened a good bit in the late 1990's. A manufactured home is a very good option for many homebuyers, and certainly FHA can provide assistance if it is a manufactured home that is installed on a foundation. For many homeowners, that is their option, and I think it is something that in working with the industry, I think we can certainly continue to promote that as an option.

You had referenced some of the other facets of manufactured housing relative to installation. Just as the Federal Government helped set some manufacturing standards many years ago to bring conformity to the industry, I think at the very least a minimum threshold in terms of installation procedures is something definitely we should certainly continue to look at.

Recognizing, sir, my own State, when we were in Texas, relative to the installation, the process is far different in East Texas than it is in South Texas than it is in West Texas. So, we realize it is not a one-size-fits-all solution, sir, but certainly I think looking at

a minimum threshold for installation requirements is something worth looking into.

Senator ALLARD. Thank you, Mr. Chairman. I see my time has expired.

Chairman SHELBY. Thank you.

Dr. Bernanke, you have served as a Member of the Board of Governors of the Federal Reserve since August 2002. You have also spoken frequently on various monetary policy issues, such as inflation targeting and making the Federal Reserve's decisionmaking less mysterious to the public, I believe were your words. As the Chairman—and you will be—of the Council of Economic Advisers, will you continue to discuss such matters? And as the President looks toward naming a replacement for Chairman Greenspan, what role would the CEA Chair play if the CEA Chair is one who is highly regarded like yourself in monetary affairs?

Mr. BERNANKE. Senator, first of all, it is very important that the Federal Reserve remain independent of the Administration in making monetary policy, and for that reason, even though at the moment, I am a Member of the Board of Governors, I recused myself from even participating in the monetary policy process. So, I would not—in my new position, I will not be commenting on—

Chairman SHELBY. The independence of the Federal Reserve is paramount, is it not?

Mr. BERNANKE. The independence is paramount, yes, sir, and I do not expect to be involved in any of these issues that you are referring to, sir.

Chairman SHELBY. Okay. The Social Security system clearly faces many challenges, as we all know, in its future financing that will prove difficult to resolve the longer we wait. The Medicare program also faces a significant financial problem, perhaps even more dramatic than that of Social Security.

As a key adviser to the President, how would you recommend, Doctor, that the Administration approach these problems; that is, is there a set of basic guiding principles that should be kept in mind as the Administration proposes various reform options? And I should include Medicaid, too, in that area.

Mr. BERNANKE. Senator, that is quite a large question you asked me there. I think there are two primary objectives that we need to serve. The first is that these programs which are crucial parts of our social safety net continue to serve that function, that Social Security continue to provide decent retirement income for people when they reach that age, and that Medicare provide important support for health costs for our public.

At the same time, we have an aging population. We have a longer-living population. We have greatly increased costs particularly on the health side. And so a responsible approach must be to make sure that resources are there, that the Government is able to afford the promises that it makes.

Senator, I know you are familiar with the broad outlines of the President's proposals, and I will not repeat those unless you would like me to discuss them. But I think we do have to make sure that we are meeting both those goals and, in particular, that we have made provision for the resources we are going to need to pay for those promises. So, I would look in the case of Social Security to

think about how we can restructure, if necessary, to make sure those promises can be kept.

The Medicare problem, of course, is in some sense more complicated because it involves not only a Government transfer program, but also the entire health care system of the United States. I think there are a number of reforms that would be quite useful. I think it is possible, for example, through health savings accounts and high-deductible insurance policies to provide a bit more market discipline in the health care industry. I think there are a number of mechanisms that could reduce costs and help control costs without sacrificing the essential function of that program.

So it is a tremendous challenge, Senator, and I look forward to trying to meet both of those responsibilities.

Chairman SHELBY. Mr. Montgomery, housing market risk, there is always risk. HUD has proposed allowing FHA to insure zero downpayment mortgages. In recent years home values, as we all know, have increased dramatically. If home values were to decline—and if history is a guide, they will—what impact do you expect this to have on borrowers with zero or even negative equity? And could the growth of low- and zero downpayment mortgages put the FHA insurance fund in the risk of insolvency? Is that a concern? And how would you manage that?

Mr. MONTGOMERY. Thank you very much, Mr. Chairman. Certainly, the function of FHA is an insurance policy, and without risk, we basically certainly would not be using it to the degree that we should be using it. I would say that the zero downpayment program goes a long way toward solving the largest hurdle for many homebuyers, and that is the downpayment.

In my consultations with HUD staff, in my opinion, I believe the way they have structured it would be as such that the premiums would cover any inherent risk. And certainly the underwriting standards I think we should put in place would perhaps need to meet another threshold to ensure that we have homebuyers who are using the product that are less likely to default on the loans.

Chairman SHELBY. Senator Sarbanes, do you want to take a round? We are in our second round.

STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Yes. Thank you very much, Mr. Chairman.

Mr. Montgomery, I would like to ask you a few questions, because the positions you are going to are extremely important in addressing the housing needs of our citizens. Secretary Jackson has apparently made it a priority for the Department to seek to gain back market share for the FHA program. As you know, FHA's share of the mortgage market has declined from nearly 12 percent in 1994 to just over 3 percent last year.

To what do you attribute this decline? And what plans do you have for addressing this problem?

Mr. MONTGOMERY. Thank you very much, sir. The FHA has not been a very good option for a lot of people as of late, for a number of reasons, sir. I would say a lot of consumers are not even aware that the program exists anymore. I can remember a time not too long ago when you would see FHA/VA homes for sale in the Sunday newspaper. You certainly do not see that up here. You cer-

tainly do not see it in California, where the median price of a home has hit almost half a million dollars now.

But getting back to how we can make consumers aware of it, I think we could do a better job of marketing the program. Somebody had mentioned to me, well, perhaps a consumer education program, and I said I am not even so sure a lot of potential homebuyers are even thinking about FHA. There is certainly nothing wrong with the subprime market. It is viable and has been a very good option for many homebuyers, but I have to believe, Senator, that there are some homebuyers who have gone to the subprime market that could have probably done a better job if they had gone with FHA instead of subprime. So, I look forward, if confirmed, to working with this Committee to see ways we could better position FHA as an alternative for many low-income homebuyers.

Senator SARBANES. Well, let me just follow along. In a recent nationally syndicated column by Ken Harney, Secretary Jackson was said to be urging homebuyers to consider FHA as an alternative to subprime loans. And one of the reasons Secretary Jackson gave for using FHA, which Harney applauded in his column, was the fact that FHA loans carry no prepayment penalties. Subprime loans often impose heavy early payoff fees.

I strongly agree with that analysis, actually. In fact, it is through prepayment fees and frequent refinances that many subprime lenders strip unsuspecting homeowners of their home equity. We have had hearings in this very Committee on that subject and have heard really heart-rending stories of people who have just lost their homes, in effect, because they were subjected to this constant refinancing, talked into by some pretty slick people.

It seems to me particularly unfair that homeowners who take out higher-priced loans in order to become homeowners and who have a credit problem are penalized by prepayment penalties when they try to take advantage of lower rates, which, of course, would make them more secure in their home as payments would become more affordable.

What is your view about prepayment penalties in the subprime market? Do you have a view about that?

Mr. MONTGOMERY. Senator, as you know, many homebuyers like to use prepayment options, and I think anything we can do to be more consumer friendly in that area certainly we should do. But, again, Senator, I think it gets back to making potential low- to moderate-income homebuyers aware that FHA is out there and can help them and has helped tens of millions of people since 1934.

The subprime market has literally exploded in size, Senator. From 1994 to 2003, it has increased tenfold. And, again, there is certainly nothing inherently wrong with the subprime market. I just have to believe in my heart of hearts, Senator, that there are more homebuyers out there who are unaware of the benefits of FHA, for whatever reason, that could have gone that route versus the subprime market. Again, sir, I think we could do a much better job of offering that as an option to some homebuyers out there.

Senator SARBANES. Of course, you are going to be the FHA Commissioner. I mean, you can establish a more effective competition with the subprime market and use as one of your marketing de-

vices actually the fact there are no prepayment penalties on FHA loans, presumably. I mean, that seems to me a strong argument.

On occasion, I would almost say traditionally in this country, the FHA Commissioners, the strong and effective ones, have affected prevailing views or standards in the industry as a general proposition, and on that score, it seems to me that there is a role for you to play to urge subprime lenders either to reduce or eliminate their prepayment penalties.

What is your view of trying to play that role if you are confirmed as the FHA Commissioner?

Mr. MONTGOMERY. Certainly, Senator, if confirmed, I can assure you it will be one of my top priorities to look at ways we can do what is good for the consumer and present FHA as a better option to them.

Senator SARBANES. Mr. Chairman, I see my time is up. Could I ask one more question?

Chairman SHELBY. Go ahead, Senator Sarbanes.

Senator SARBANES. The default and foreclosure rates for FHA are much higher than for the prime market. In fact, even as the loans past due in the prime market have declined each year since 2001, FHA loans past due increased from 2001 to 2003 and have stayed stubbornly high since then. FHA foreclosure rates have gone up steadily even while the prime markets have stayed steady and, in fact, subprime foreclosures have declined. The claim rates for FHA single-family loans increased sharply starting in 2000 and have remained high.

Why is all of this happening?

Mr. MONTGOMERY. Thank you, Senator. I would agree with you that the default rate and the foreclosure rate are much higher than you would find in the conventional market. As I recall, the default rate for FHA is somewhere around 6, 6.5 percent right now. I would also say in defense of HUD, I believe they have put in some fairly good loss mitigation programs in effect, whereas the foreclosure rate is only around 1.2 to 1.5 percent.

I believe there were some products that were perhaps used in the late 1990's in an effort to increase homeownership, that we perhaps may be paying a price for now. But it gets back to, I think, just being very careful on the front end in our zeal to make people homebuyers that we are not ultimately paying a larger price on the back end. And I can assure you, Senator, there is nothing worse than foreclosing on a home. And if confirmed, I can assure you we will do everything we can to get down the default rate as well as the foreclosure rate.

Senator SARBANES. Mr. Chairman, I will defer to the next round. Thank you.

Chairman SHELBY. Senator Allard.

Senator ALLARD. Mr. Chairman, I would like to follow up on the line of questioning of Senator Sarbanes in that I have also recognized, you know, the default rate and foreclosure rates are higher in FHA. Are you considering any reforms to improve FHA's performance in that regard? You have done some now. Are you considering any additional ones?

Mr. MONTGOMERY. If confirmed, Senator, absolutely. That would be one of my biggest priorities. As I mentioned, I was very im-

pressed with what HUD has put into place to work with homebuyers who have defaulted, who are 60 to 90 days past due, to work with them, to perhaps restructure the loan or other options so it does not go to foreclosure. It then begs the question could there be more we could be doing on the front end so these people do not find themselves getting into dangerous territory and the possibility of losing their home? So, certainly, Senator, it would be one of my top priorities to look at that program as well.

Senator ALLARD. I think you have implied in your answer that we need to somehow or other balance the needs of the homeowner with safety and soundness concerns. Do you have any idea how we reach that balance?

Mr. MONTGOMERY. Senator, I do not have the exact answer today, I can assure you, but I would definitely look forward to working with your staff as we find solutions.

I would say that you do not necessarily, in our zeal to get more homebuyers, to have a product that would ultimately—those consumers might pay a larger price for 5, 6, or 7 years down the road, we need to protect the safety and soundness of the Mutual Mortgage Insurance Fund and make sure that we are above the Congressionally mandated thresholds in terms of reserves.

I am trying to look at it more strategically, Senator. If confirmed, I would certainly do so, to see that we can put in ways to where those homebuyers remain homeowners for 20 or 30 years.

Senator ALLARD. I applaud the President in his promotion of affordable housing or homeownership society. I think that is the dream of most Americans, to at least be able to own their own home. But in the process of doing that sometimes I wonder if we get in, we so marginally qualify them that they do not have the resources to take care of the roof when it leaks or if they have sewer problems or maybe do not maintain the home as it should be and can affect the neighborhood if they do not. I would like to hear your thoughts on how a family that is in some of these marginal loans can face these expensive repairs or if you want a family to be prepared to face these possibilities, can you comment regarding the importance of long-term ownership? These are challenging problems and it is something that I think we all struggle with.

Mr. MONTGOMERY. Certainly the spill-over benefit of homeownership, the social benefits if you will, are excellent, and we certainly applaud any effort to make people homebuyers. But again, sir, I just want to get back to structuring it in a way to where we are not paying a price further down the road. I just want to ensure, perhaps, through homebuying counseling. I know HUD's budget for that has gone up of late. That is something we had great success with within Texas. And as I mentioned before, this is the single largest investment many of us will make. I think the more that we can sit down on the very front end, working with nonprofits on homebuying counseling, I think would serve us all better in the long-term, and especially serve the family in the long-term.

Senator ALLARD. I mean if we look at the poverty levels it is many times lower in the rural areas of the country than anyplace else, and I think I have maybe the poorest or second poorest county in the Nation in the State of Colorado, and people do not think of that in those terms, but it is a rural area, and their populations

are very similar I think to what you have seen in Southern Texas in which you have mentioned some of your experience in working with those.

I just hope, Mr. Chairman, that you are able to bring some of your experience forward in a way that will help us resolve some of these dilemmas that we face, and so I wish you well.

Mr. MONTGOMERY. Thank you, Senator.

Chairman SHELBY. Senator Reed.

Senator REED. Thank you, Mr. Chairman.

Before I address questions to Mr. Montgomery, one final question to Mr. Bernanke.

You mentioned in your comments, and I agree with you, is that we have to do more to increase the wages of working Americans. What specific policies would you be proposing to do then?

Mr. BERNANKE. Yes, Senator. Increasing real wages would certainly better the lives of our workers.

I am somewhat optimistic about the near-term. Productivity has grown very substantially in the last few years in the U.S. economy. Historically, real wages tend to catch up with productivity, but often with a lag. During the late 1990's, for example, during the first part of the productivity boom, real wages did not move very far for a couple of years, and then as the labor market strengthened, real wages began to rise. I suspect that we are currently in the same situation. Productivity has risen at a remarkable pace for the last 2 or 3 years, but real wages have not yet caught up with that productivity.

As I said in my response to your earlier question, as the labor market strengthens, I believe we will see real wages rising to match the gains in productivity.

The one other suggestion or thought I have on this subject is that an important reason that real wages are rising slowly is the increased cost of benefits to employers, which takes away from the money available to pay wages, and of course a principal culprit there is health insurance costs. So, as Senator Shelby alluded to earlier, I think addressing the cost of health insurance, trying to make that more affordable, would go a long way in strengthening the labor market and making real wages grow more quickly.

Senator REED. Thank you, Mr. Bernanke.

Mr. Montgomery, several of my colleagues have spoken about the declining share of the FHA program in the market. One reason—and you mentioned it—is the fact that now the price of housing is so significantly higher that many times they exceed the limits. In my home State of Rhode Island, the FHA loan limit is \$280,000. The median home price is \$283,000, so for many people who would qualify based upon their income, they cannot find a house that is suitable for purchase with an FHA instrument.

What are your thoughts on increasing loan limits for high-cost areas like Rhode Island?

Mr. MONTGOMERY. Thank you very much, Senator. I think anything that we can do to work with lenders who are the entity that promotes FHA, to be a little more nimble is probably the best way to say it, Senator. It is not a one-size-fits-all issue. In many ways the ceiling is a concern, and certainly a higher-price market such as Rhode Island and parts of the Northeast. On the other end, the

floor to the conforming loan limits is also a problem as well, but given the opportunity, Senator, I think we need to look at ways that we can better position FHA so we are not marketing it in only areas that happen to have affordable homes, which you certainly do not find in this part of the country, nor do you find out on the West Coast as well.

Senator REED. Does that mean you are going to look at the possibility of raising, in selected regions, the top line?

Mr. MONTGOMERY. Senator, I think we need to look at just about every option to expand FHA as a viable product for low- to moderate-income homebuyers, and I look forward to working with the Committee, if confirmed, to ways that we can better position FHA.

Senator REED. Mr. Montgomery, another topic. The FHA, one of its principal functions is to provide insurance for private lenders. This is accomplished through the Mutual Mortgage Insurance Fund. In 2003, they recorded a \$7 billion upward reestimate of the credit subsidy in this fund, and it is a succession of these increases over a decade or more, which suggests that the MMI program, the Mutual Mortgage Insurance Fund is becoming less profitable and causing problems for FHA. What plans do you have to ensure the long-term viability of this fund?

Mr. MONTGOMERY. Thank you very much, Senator. It is critically important that FHA meet the Congressionally mandated threshold. I believe it is about 2.3 percent of the reserves. The MMI is I believe somewhere around \$400 billion right now, and the reserves are on the order of about \$25 billion. I think anything we can—that fund is obviously constantly readjusted. This is certainly something we need to work better on, I think. Last year I think we were looking at readjustment around \$7 billion, and next year, Senator, it could be a readjustment or a plus-up of \$3 to \$4 billion. In my consultations with the HUD staff I think it is something we definitely need to look at, how we can better reestimate the sanctity of that fund.

Senator REED. Do you have any other proposals with respect to the fund and its long-term viability? It is difficult if it gets reestimated every year, to maintain that fund as it should be.

Mr. MONTGOMERY. Absolutely, Senator. I do not have those for you today, but if confirmed, I certainly would work with your office on that.

Senator REED. We have had in the past a concerted effort on both sides of the aisle to maintain Section 8 contracts that were expiring, to prevent what the term was, subsidized units to be flipped back in the private market. We gave some tools to HUD. One tool, for example, was the ability to set certain budget-based rents subject to a cap that could include new debt service, would allow a landlord to go out, borrow, include that in improvements in the property so that it would be competitive and it would be a good place to live. But we are told by some people that HUD is not allowing these devices or using these tools effectively. Do you have any information about that?

Mr. MONTGOMERY. Senator, I cannot comment specifically on that issue, but I will say as a general matter the preservation of affordable housing in this country is a critical issue for the Department, and in my meetings with staff it is something that we have

spent a good bit of time discussing. As properties expire, I think the Department has done a fairly good job the last 2 years of convincing more owners to not opt out. And I think HUD has done a pretty good job of trying to be a better steward of the public money to ensure that the properties are maintained, to ensure that the credit subsidies are accurate, but I can assure you it would be a top priority, Senator, as the need continues to grow, that if we preserve and maintain our affordable housing stock.

Senator REED. Thank you, Mr. Montgomery.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

Mr. Montgomery, I just have a couple more questions and then I want to turn to Mr. Bernanke.

I was pleased to see that one area you mentioned in your testimony is the pressing needs of the growing senior population in this country. Current projections show the senior population doubling from 35 million to 70 million by the year 2030. Regrettably, I think we have done little to prepare for the needs of seniors, and in particular there is concern that seniors are being moved into institutional settings prematurely because of the lack of services to help seniors to age in place.

Now, most experts view such premature institutionalization as costly in dollars terms, but also harmful to the well-being of the seniors, most of whom would prefer to stay in their homes and in their communities. Actually, I proposed a legislation to establish an interagency council on meeting the housing and service needs of seniors, which would give us a critical first step in coordinating the Federal effort in addressing the needs of the aging population by bringing together the Federal agencies and offices which deal with seniors, as well as establishing cooperative patterns with State, local, and private partners.

I mention it only in the hope that you will take a careful look at that legislation. It would seem to me something the Administration might be willing to support, and I think it would be first step toward moving us toward developing a comprehensive policy for seniors, and particularly one that coordinates housing and other needs of the senior community. Have you had any chance to think about that issue heretofore?

Mr. MONTGOMERY. Yes, sir, Senator, I have. And I could add my parents to that category.

Senator SARBANES. It always helps to have a personal example.

Mr. MONTGOMERY. I could not agree with you more, Senator, that the need is growing. And if you look at the statistic of that age group over 65 doubling in just 25 years from now, and as a subgroup of that, people over age 80 are one of the fastest-growing age groups in the country. Certainly, Senate Bill 705 that will establish the council, in reading it, it seems very similar to a similar effort done to establish the Interagency Council on Homelessness, which I played a part in in my previous job at the White House. So certainly, Senator from what I have read from the bill, I would certainly support the establishment of that group.

Senator SARBANES. We look forward to interacting with you on that issue. I think we might be able to do some good here.

The final question I want to ask to you, and I have saved it to the last because I think it has a carryover to Mr. Bernanke. I know he has been paying attention to all the questions put to you, but I urge him to pay attention to this one since I want to swing over to him about it.

According to a recent article in *The Wall Street Journal*, the Mortgage Bankers Association data shows that adjustable rate and interest rate loans, where the borrowers pay only interest for a period of time, typically 5 years before they start paying down the principal, accounted for nearly two-thirds of mortgage originations in the second half of last year. The article goes on to say that the surge in ARM's and interest-only loans is particularly notable because rates on 30-year fixed rate mortgages remain below 6 percent, still low by historical standards. You are getting apparently a trend in this direction, at least off those figures.

The conclusion that many analysts are drawing from this data is that buyers are using these riskier products in order to buy homes they could otherwise not afford because these products carry lower initial payments.

However, if interest rates rise or home values stop rising at the extraordinary rates that they have been, then these homeowners could find themselves in very serious trouble. In fact, regulators are also getting nervous about a drop in credit quality for both home equity lines of credit and first mortgages and have warned banks to tighten up standards.

In your view first, Mr. Montgomery, and then I would like to hear from Mr. Bernanke as well, how much of a concern are these trends? What if anything should be done about them? What are the potential implications of this looking ahead in terms of the potential for significant negative impact on the economy, let alone on the particular individuals?

Mr. MONTGOMERY. Senator, I am equally concerned for many homebuyers who, through zero interest rate, or interest rate only loan, sir, may be paying a price ultimately down the road. In fact, this month's *Money Magazine* has a very detailed article about such a problem. Inherently it is certainly not bad, but I agree, Senator, that the homebuyer's right on the cusp. If a roof leaks, a transmission breaks, and before you know it they are right on the cusp of perhaps going to foreclosure. At the same time they are not building in any equity in their home. The reverse of that certainly are some homebuyers who have tapped into their home equity line of credit, which is certainly a good product, but again, it gets back to something, sir, I think we definitely need to take a look at to make sure again that we are not paying a price further down the road.

Senator SARBANES. Mr. Bernanke.

Mr. BERNANKE. Thank you, Senator. There is nothing intrinsically wrong with ARM mortgages or interest-only mortgages if they are used properly. For example, ARM mortgages typically have a period of fixed rates, before they are affected by the current market rate. So people who are, for example, planning to live in one location for only a modest period of time, for example, may find that a more attractive option.

Similarly, interest-only mortgages can be sensible for people who have sufficient equity and otherwise are fairly strong financially and do not want to put a lot of their wealth into their home. So these instruments are not in themselves necessarily a bad thing.

What is important of course is that they are used properly. And I would just make two comments. The first is that the underwriting standards need to be strong, and I hope that banks and others who make loans will pay due care to the ability of borrowers to repay, even should interest rates begin to rise. And second, I would also urge those who are looking to buy a home to buy a home that you can afford to live in and not buy a home just because you think the price is going to go up.

So, I think with sensible behavior that these instruments are not necessarily a threat, but I do agree that care is needed on parts of both lenders and borrowers.

Senator SARBANES. I guess a thing of concern is when you get a surge in the figures it gives you pause and worry because I think it is difficult to make the assumption that it is all being done very carefully. It is not as though you get incremental steps that people are thinking this through very carefully. I think we need to be very careful about that.

Let me ask you, in your macroeconomic textbook, the 1991 edition, you had a section on the minimum wage, and you gave the pros and cons. At the end of the debate the textbook concludes, "Therefore, the total labor income of unskilled workers does increase when the minimum wage rises. overall, taking these various effects into account, a recent study finds that raising the minimum wage from \$3.35 per hour to \$4.25 per hour"—those are the figures that were under discussion at that time—"could reduce the number of families by poverty by about 6 percent, on balance a reasonably substantial effect." And the textbook goes on to say, "Thus, the inflationary effects of an increase in the minimum wage are relatively small. As a result an increase in the minimum wage has negligible effects on aggregate employment and output."

Now, today's minimum wage in real terms, if you took the \$4.25 we were talking about in 1991, it should be \$5.89. It is \$5.15. I am interested whether you continue to see increasing the minimum wage as an effective to reduce poverty and increase the income of lower-wage workers while negligible effects on employment and inflation?

Mr. BERNANKE. Senator, the study you refer to by my colleagues, Allan Krueger and David Card, has been a very controversial one, and debate still continues about their estimates.

I think the minimum wage has a place and I think the Congress should consider its policies in minimum wage. It has some drawbacks. While it does raise the wages of most skilled workers, it also perhaps reduces employment among the low-skilled group. The other issue with the minimum wage is that it is not a very well-targeted instrument. Many of the people who benefit from the minimum wage might be teenagers from affluent families, for example, working during the summer. There are also concerns that a minimum wage may prevent young people from getting access to labor markets and therefore gaining the experience they need to be more productive and earning a higher wage later.

I think there are pros and cons to minimum wage policy, and I think you need to look at that very carefully.

Another suggestion I would make is perhaps to consider alternative means of helping low-income workers. For example, the earned income tax credit has proven to be an effective way to provide income to working families, and may be a better targeted approach relative to the minimum wage. But to summarize, I think it is an issue that Congress needs to look at, and there are points on both sides to be made.

Senator SARBANES. I take it that means you have departed from your 1991 view in your textbook?

Mr. BERNANKE. No, Senator. I have just become more uncertain.

Senator SARBANES. Let me ask you about China real quick. I see Senator Carper is here now.

Chairman SHELBY. Go ahead.

Senator SARBANES. In confirmation hearings before this very Committee in 2003, you were asked about the issue of China manipulating its currency and about how that might be corrected. And you said, "I do think that a purely floating exchange rate would provide some dangers in the current financial system in China." You then went on to suggest that rather than forcing the Chinese to move directly to a float, part of an alternative approach would be to discuss and consider the possibility of a revaluation, which means to keep the exchange rate fixed but at a different parity, that is, at a different value.

Is it still your view that a revaluation would be the preferable course in terms of addressing this currency valuation issue with China?

Mr. BERNANKE. Senator, since my last testimony, China has made significant progress on the institutional side to prepare for a more flexible exchange rate. For example, they just recently introduced a market for trading eight currency pairs, giving them the capacity to trade foreign exchange in a free market. So they have made progress I think institutionally toward preparing themselves for a more flexible exchange rate regime.

I think the key here is not whether it is floating or not. I think the key is that they move to a more flexible exchange rate which can better reflect the actual value of the currency and contribute to a more balanced trade between the United States and China and between the rest of the world and China.

I do not have a strong view on whether they should choose a basket, whether they should revalue, whether they should try some other mechanism, and I think that is something that needs to be discussed, but I do think they need to move from their current fixed exchange rate to a more flexible system.

Senator SARBANES. You know, they said President Truman, at one point in his Administration asked his adviser to get him a one-armed economist. And they said, "Well, why do you want a one-armed economist, Mr. President?" And he says, "Well, I am tired of this advice on the one hand and on the other hand."

[Laughter.]

I am reminded of that story by the answer to the two questions I put to you. I yield to Senator Carper.

Chairman SHELBY. Senator Carper.

STATEMENT OF SENATOR THOMAS R. CARPER

Senator CARPER. Thanks, Mr. Chairman. To our witnesses, welcome this morning.

Mr. Montgomery, if I could, I would just like to address a couple of questions to you today. I was provided a short briefing paper about you and your background, and the purpose of my question is just to give you a chance to defend yourself, all right?

Mr. MONTGOMERY. Thank you.

Senator CARPER. The briefing paper—and I will paraphrase this—it says Mr. Montgomery has worked in public relations and as advance person in his professional career since 1990. His only professional connection to housing was as the Communications Director of the Texas Department of Housing and Community Affairs. His time at the Texas Department of Housing was marked by scandal, and although Mr. Montgomery was not implicated, there were accusations of favoritism and corrupt practices including bribery. The executive director and a board member apparently were convicted.

My briefing sheet goes on to say Mr. Montgomery came to meet me as a courtesy. He seemed very nice and genuinely interested in housing issues. However, his lack of housing experience is troubling. This position requires expertise.

Now, the three previous men who have held this position in the Clinton Administration and in President Bush's first 4 years had extensive experience in housing, development, finance, or policy, and that is all I know about you walking into here, and I just want to give you a chance to like defend yourself as to why you should be the person who we should confirm as the Assistant Secretary for Housing and for the FHA Commission.

Mr. MONTGOMERY. Thank you for that question, Senator.

Senator CARPER. I am sure you appreciate it.

[Laughter.]

Mr. MONTGOMERY. Starting with my experience in housing, the title of Communications Director—

Senator CARPER. I will say this, if I can interrupt, my colleagues, we have all known people who serve as drivers in our campaigns who just went on to do extraordinary things in their lives, and you probably can think of some people. I have seen people who were like political drivers and they went on to amazing things in their lives. So, I would not question you, probably you were the guy who worked in advance for a long time for a couple of fellows—I do not consider that a demerit or anything. I say that as a precursor.

Mr. MONTGOMERY. I appreciate that comment, Senator, because I too started as a driver.

Senator CARPER. See, what did I tell you? History repeats itself.

Chairman SHELBY. History has done pretty well with Senator Carper, Congressman, Governor, U.S. Senator.

Senator CARPER. I was never a driver. I did not have that on my résumé.

Mr. MONTGOMERY. Senator, starting with my experience in Texas as Communications Director, which was my title, and certainly you cannot read a lot into titles these days. I, should say, had a very large role in all facets of the agency. I had a legislative role, the marketing role, the programmatic, the policy side. The Texas De-

partment of Housing and Community Affairs at the time, and still is one of the largest if not the largest State housing agencies in the country. It was certainly one of the most programmatically diverse. We administered an amalgam of housing-related programs, first-time homebuyer program through mortgage revenue bonds, housing tax credits, CDBG, Community Service Block Grants, LIHEAP, emergency shelter grants program. The need was very profound in Texas, certainly, Senator. I would also agree Texas's housing agency is not on the scale of HUD, but I think many of the same concerns and our ability to adapt to the needs of the State. Hopefully, if confirmed, I would like to do so as well in this capacity.

Relative to my experience, Senator, I think if you ask a lot of my colleagues in my life, that I am a very capable leader, a very good consensus builder. Whether it was heading up the White House effort following the Shuttle Columbia accident, which was put on my shoulders barely two hours after it happened. It was about my first week on the job as Cabinet Secretary as well.

Looking at the same issues, the ability to look at not just the causes of the accident and dealing with the Columbia accident investigation board, the ability to bring the groups together, the industry, the stakeholders, and to play a big role in doing what had not been done, Senator, in a generation, and that is essentially play a big role in helping revamp America's space program.

Certainly, being White House Cabinet Secretary, I dealt with an amalgam of issues on a daily basis, Senator, dealing with Cabinet Secretaries, deputy secretaries, chiefs of staff, whether it was Department of the Interior or Department of Labor, interacting with the White House staff, senior staff, which I was a member of as well, on a daily basis, I think definitely allowed me to have very good experience, what I would hope to be able to use if confirmed to my capacity as Assistant Secretary for Housing.

Senator CARPER. One last question if I could, Mr. Chairman.

Chairman SHELBY. Go ahead.

Senator CARPER. That is, just take a minute or two and just share with us your vision of the future for FHA.

Mr. MONTGOMERY. I would say, sir, in one word, that FHA needs to be more nimble, needs to be better adapting to the needs of low-to moderate-income homebuyers. We have talked earlier about FHA's market share shrinking. Mostly families who could have used FHA have gone to the subprime market, which has exploded exponentially almost in the last 10 years. There is nothing inherently wrong with that market.

Somebody previously mentioned to me in my meetings at HUD that we need to do a consumer education program, and I said, I think you need to do a consumer awareness program. I am not so sure people are even thinking about FHA. There was a time in all of our lives, probably 10 or 15 years ago, where you would look in the Sunday paper and you would actually FHA/VA homes, FHA/VA homes. You just do not see that any more, especially in California where the median sales price is now half a million dollars, certainly in this part of the country as well. And I think anything we can do to show consumers that FHA is a very good alternative for them for any number of reasons, I think we would be well-serving those homebuyers, Senator.

Senator CARPER. Thanks very much.

Mr. MONTGOMERY. Thank you, sir.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Thank you, Mr. Chairman.

Mr. Bernanke, I was at the first Congressional hearing on remittances 3 years ago. Since that time the size of the remittance flows continues to grow, how they are marketing. The Inter-American Development Bank estimates that remittance flows from the United States last year to Latin America alone totaled more than \$30 billion, and they estimate that by 2010 total remittances to Latin America from the United States for the decade 2001 to 2010 will be more than half a trillion dollars. So there is a very significant movement of funds. Despite this, the exploitation of those doing the remittances still remains a problem, at least of concern to many of us.

You recently gave a speech on the U.S. remittance market in which you identified the exchange rate fee as one mechanism for this abuse. You said:

Typical nonbank fees for remittances remain high on an absolute basis, and consumers who deal with the less scrupulous providers of remittance services may bear a significant financial cost. One problem in practice is that users of remittance services often do not appear to be aware that some services exchange dollars for foreign currencies at rates less than favorable to the consumer than the market-determined exchange rate.

And you go on and conclude your speech by saying:

The challenge is to ensure the remitters can send funds to their home countries conveniently, safely, and at reasonable cost. The opportunity is to find ways to leverage immigrants' needs for remittance services into a broader relationship, one that will be both profitable for the bank and will also provide immigrants and their families with greater financial access.

Actually, legislation has been introduced to address some of these concerns, and Chairman Shelby and I have actually asked the GAO to study the U.S. remittance market, and we expect their report later this year.

Is this an issue that you plan to pursue at the Council and is it an issue that the Council and the Committee could work on together to try to address? It seems to me an issue that needs to be addressed. I think that there is a range of reasonableness in which a solution can be found that would help those sending the remittances, that would have the support at least of some of the industry, the ones who hold to higher standards. It would obviously impact those who are prepared to exploit people, not fully disclose, not deal with them in a straightforward and fair way, but it seems to me we might be able to do something here that would benefit everyone who should be benefited, including the responsible elements in the industry and those sending the remittances.

Mr. BERNANKE. Senator, I developed an interest in remittances at the Federal Reserve, and I would like to continue thinking about that and working with you on those issues.

The bottom line of my speech was that it is a positive development, that more competition is developing in this market, in particular that credit unions and banks are becoming more involved in remittances. The Federal Reserve has provided some additional support for sending money across the border. There is a general concern that—among immigrant populations—the share of people

who are so-called “banked,” that is who are involved in banking and involved in the financial system, is much lower than the general population, and this provides a very interesting possibility for banks to reach into these communities and say, “We can provide remittance services at a lower price and in a more reliable way,” and at the same time, you know, help immigrants avail themselves of the range of financial services, including credit, savings accounts, and the like. So, I think that is a very positive development, and it interacts with all these other aspects of financial literacy that I think we are all interested in promoting.

Senator SARBANES. Yes, very good. The credit unions have actually taken a major initiative in this area. It is a priority item for them, and they have taken some very positive steps and we have tried to be very encouraging of them. We look forward to working with you on this.

Mr. BERNANKE. Thank you, Senator.

Senator SARBANES. I wanted to ask about the long-term unemployed in particular. The BLS tells us that there are 7.7 million unemployed workers today who are actively seeking work. There are another just over 5 million who are not in the labor force but say they want a job. If you factor them in, the unemployment rate is substantially higher than the one we use when we report the figures.

But a problem seems especially severe among the long-term unemployed, those who have been unemployed for over 26 weeks, which is the period for which the traditional unemployment benefits run unless we extend it. We have extended it, but now no longer. That is not applicable at the moment. But the problem is that the long-term unemployment has not subsided as growth has resumed, which was generally the pattern in previous downturns. Its share of the total joblessness actually continues to rise. The long-term unemployed now constitute 21.2 percent of all unemployed workers and the figure has been above 20 percent for 31 consecutive months. In other words, of the unemployed more than 20 percent of them are long-term unemployed. That is the longest duration of elevated long-term unemployment since the Bureau of Labor Statistics began tracking such figures about 50 years ago. So if you look at the patterns and everything, it moves out on you or leaps out on you in terms of a disturbing departure from past trends.

First of all, how serious do you regard this as being? And second, what can we do about it, and particularly what can we do about it in the short-run since by definition these are people and families who have exhausted their unemployment benefits? So they are not getting any support to meet their family needs. And the traditional view, that the economy will pick back up again, jobs will be more available, you will be able to move out of this situation, does not seem to be working.

Mr. BERNANKE. Senator, your characterization is correct. As I replied earlier to another question, the labor market in general was slow to recover after the 2001 recession, but has, generally speaking, made a very good recovery in the last year and a half.

One area though that has not been as strong—and you are quite correct in pointing it out—is long-term unemployment. Evidently there are people who have not yet been able to find new work.

I agree this is a serious issue. I think as a Member of the CEA I will certainly want to look at the range of policies and the range of options we have to address it.

Just a couple of directions one might want to think about. One way to help is to provide assistance in retraining, education, opportunities to get on the job training, to help people adjust to the changes in the economy and to find new work.

Another thought has to do with unemployment insurance. One suggestion, which I at least find worth entertaining is the idea that beyond a certain point that individuals receive a grant which they could use to get more education, for example, and that whatever—when they found work, they would not be forced necessarily to give back what remained, that is, they would have an incentive to find work so that they could not use up the grant in living expenses.

I think there are some mechanisms, but I do not pretend to have the answer. I think it is a very difficult problem and one we need to look at.

Senator SARBANES. Maybe some thought should be given maybe of some task force within the Executive Branch to focus specifically on the long-term unemployed which would include the Council or the Labor Department, maybe the Department of Education. I do not know. You could go through the various agencies and put together a program.

One final question. The CEA has been moved out of the Executive Office Building next door to the White House. Now, there are some who think that if you do not have proximity to the White House that that means you are losing influence, and there is reason to think that. Mr. Montgomery has had a lot of proximity, so presumably has a lot of influence.

[Laughter.]

Is the CEA going to get back into the Executive Office Building, and if so, when, and you as its Chairman, are you going to make—what kind of effort are you going to make to bring that about, or are you going to allow them to relegate you out of the immediate Executive compound there?

Mr. BERNANKE. Senator, the CEA staff was moved a block away because of the need to renovate the Old Executive Office Building, and my understanding is that renovation is still proceeding so there is no immediate prospect of change in that situation.

Senator SARBANES. Is the plan that when the renovation is completed, the CEA will come back in or is something else going to happen to—

Mr. BERNANKE. Senator, I believe that is the case. I would like to add that the CEA has retained the Chairman's office, which is a large office immediately across from the West Wing, which provides access and a place to work and prepare for meetings. My sense has been, in my very small exposure I have had so far, that the CEA has ready access to the decisionmakers in the West Wing.

Senator SARBANES. I think you need to focus on that question.

Finally, let me just say we look forward to continuing to interact with you. I might say to you, we do some of our nightly reading, we go back and read *Macroeconomics* by Abel and Bernanke.

Mr. BERNANKE. I will send you the latest edition, Senator.

Senator SARBANES. As these issues come along, we may refer back to your previous positions to see how consistent they remain.

Mr. BERNANKE. Thank you, Senator.

Senator SARBANES. Thank you, Mr. Chairman.

Chairman SHELBY. Dr. Bernanke, how many people are employed in the United States, roughly? Say, using Senator Sarbanes numbers, which I do not doubt, there are 7.7 million people in seeking jobs, unemployed, and there are about 5 million unemployed that are not seeking jobs. But how many people out of nearly 300 million people are currently working just in your judgment?

Mr. BERNANKE. Senator, according to the Bureau of Labor Statistics there are 150 million or so in the labor force, of which 141 million currently have jobs.

Chairman SHELBY. And what is the national average of unemployment roughly now?

Mr. BERNANKE. Today, 5.2 percent, sir.

Chairman SHELBY. And what was it 3 years ago?

Mr. BERNANKE. It peaked 2 years ago at 6.3 percent.

Chairman SHELBY. It is 5 point what now?

Mr. BERNANKE. Currently, 5.2 percent, sir.

Chairman SHELBY. Is some of the unemployment nationally—I can use my own State, Alabama. We have pockets of high unemployment, and in other areas of the State we have 3 percent unemployment, full employment so to speak. Is that true around the country, is it pockets of unemployment?

Mr. BERNANKE. Senator, there is certainly a great bit of variety across States across occupations and the like. As I have indicated, the general labor market is much stronger than it is been in the last couple of years, but there are always occupations, areas where the labor market is not as strong, and those represent a challenge for policy.

Chairman SHELBY. As we seek ways to address the chronic unemployed people who remain unemployed, I guess there are many reasons, and probably a lot of them unknown to me, but I hope you would consider, rather than just unemployment compensation—or somebody would—some type of cash grant or something to give people once, then maybe they will start a small business or have a little risk capital or something, because I am concerned and have been for a number of years, that—which we want to do, we want to help people that are down and out. But to continue to help them—and they are treading water, so to speak, they are not getting anywhere—I do not think helps them and does not help the economy either, whereas some kind of incentive to give them a little capital to start a little risk in the marketplace, some of them will. Now I understand some of them will not.

I wonder if there have been any studies in that regard that you know about?

Mr. BERNANKE. Senator, we do not have many examples of that particular approach, but I do think it is a very interesting ap-

proach. It has much better incentives and gives people a chance to get a fresh start, go back to school, or start a business.

Chairman SHELBY. Given them confidence.

Mr. BERNANKE. I think it is a very interesting approach.

Chairman SHELBY. Senator, do you have another comment?

Senator SARBANES. Yes. I want to pursue these unemployment figures because I want to be sure we are clear on them. My understanding is that the labor force participation now is near historically low levels. In other words, there are a number of people—and the 5.1 million figure I cited would bear that out—that actually are not in the labor force and are not currently seeking because they have, in many instances, been discouraged. Is that correct?

Mr. BERNANKE. Senator, the labor force participation rate reached an all-time high of about 66.8 a few years ago and it has declined a bit since then.

Senator SARBANES. Right.

Mr. BERNANKE. But it remains high relative to historical levels.

Senator SARBANES. In addition to the 7.7 million who are unemployed, who are looking for jobs, unemployed, and that is the figure we use when we calculate the 5.2 percent unemployment rate. There are then the over 5 million the White House says are not in the labor force but indicate that they want a job. I mean they have not, in a sense, retired, correct?

Mr. BERNANKE. Yes.

Senator SARBANES. And in addition I understand there are about over 4 million people who are working part time for economic reasons. They would like a full-time job, but they cannot find or have a full-time job. So in effect they are working part time for economic reasons. So if you factor all of that in, you end up moving the unemployment rate up toward 10 percent. Is that correct?

Mr. BERNANKE. Senator, these are alternative measures of labor market slack.

Senator SARBANES. Right.

Mr. BERNANKE. If you look at some of those measures they actually have improved recently. For example, the part-time work measure you mentioned has actually come down quite a bit in the last year. I do believe though—I am not really disagreeing with you—in the following sense that the decline in the participation rate that we saw since 2000 may be partially reversible as the economy gets stronger.

So as I have indicated, the labor market has improved quite a bit but I think we have some ways to go before we are at full employment, so I do not dispute that we are not there yet.

Senator SARBANES. Thank you.

Chairman SHELBY. I thank both of you for your appearance today. We will try to move your nominations as quickly as possible.

The hearing is adjourned.

[Whereupon, at 11:44 a.m., the hearing was adjourned.]

[Prepared statements, biographical sketches of nominees, response to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF BEN S. BERNANKE
CHAIRMAN-DESIGNATE, THE COUNCIL OF ECONOMIC ADVISERS
MAY 25, 2005

Mr. Chairman, Senator Sarbanes, and members of the Committee, I am honored to appear before you today as the President's nominee to Chair the Council of Economic Advisers.

Created by Congress in 1946, the Council of Economic Advisers is a unique institution with a proud history. Its role is to provide the President with professional and objective advice on the entire range of issues bearing on the economic well-being of American citizens. I believe that, over the years, the Council has exerted an important, positive influence on economic policymaking in the United States. The economic challenges facing the United States today—including the needs to address the implications of an aging population, to achieve long-term energy security while protecting the environment, and to reform our tax system so that it is simpler, fairer, and more supportive of economic growth—are as great as at any time since the Council was created. If I am confirmed, I will do everything in my power to ensure that the Council continues its tradition of providing the best possible advice and analysis and promoting sound economic policies.

My background includes both academic and policy experience. I have held a professorship at Princeton University since 1985, where I also served as the chair of the economics department from 1996 until 2002. Before coming to Princeton I taught for 6 years at the Stanford Graduate School of Business. I have served as the Director of the Monetary Economics program of the National Bureau of Economic Research, as a member of that organization's business cycle dating committee, and as the editor of the *American Economic Review*, a leading research journal. I have been selected a Fellow of the Econometric Society and a member of the American Academy of Arts and Sciences. During my time as an academic, I visited or advised a number of policymaking institutions, including the Bureau of the Census, the State Department, and several Federal Reserve Banks. Since August 2002 I have served as a member of the Board of Governors of the Federal Reserve System, a position that has exposed me to a diverse set of policy issues and given me first-hand experience of the policymaking process.

In closing, I would like to take this opportunity to thank you, Mr. Chairman, and the Committee for the prompt consideration of my nomination. I would be pleased to take any questions you may have.

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	Harvard University	1971-75	B.A.	1975
	Massachusetts Institute of Technology	1975-79	Ph.D.	1979

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

Fellow, American Academy of Arts and Sciences, 2001-.

Guggenheim Fellowship, 1999-2000.

Fellow, Econometric Society.

Alfred P. Sloan Research Fellow, 1983-84.

Hoover Institution National Fellow, 1982-83.

National Science Foundation Graduate Fellow, 1975.

Allyn Young Prize (for best Harvard undergraduate economics thesis), 1975.

John H. Williams Prize (for outstanding senior in the Harvard Economics Department), 1975.

Phi Beta Kappa, 1975.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
American Economic Association	Member	1979-2002
	Editor, American Economic Review	2001-2004
Econometric Society	Fellow	1992-2002
American Academy of Arts and Sciences	Fellow	2001-present
National Bureau of Economic Research	Research Associate	1980-2002
	Director, Program in Monetary Economics	2001-2002
	Coeditor, Macroeconomics Annual	2001-2002
Montgomery (NJ) Board of Education	elected member	1994-2000

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

Member, Board of Governors, Federal Reserve System, August 2002-.

Howard Harrison and Gabrielle Snyder Beck Professor of Economics and Public Affairs, Princeton University, 1996-2005. Department Chair, 1996-2002. Class of 1926 Professor of Economics and Public Affairs, Princeton University, 1994-1996. Professor of Economics and Public Affairs, Princeton University, 1985-1994.

Associate Professor of Economics, Graduate School of Business, Stanford University, 1983-1985.

Assistant Professor of Economics, Graduate School of Business, Stanford University, 1979-1983.

Morgenstern Visiting Professor, Department of Economics, New York University, Fall 1993.

Visiting Professor, Department of Economics, M.I.T., Fall 1983; academic year, 1989-90.

Teaching Fellow, M.I.T., 1978-79.

**Government
experience:**

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

Member, Board of Governors of the Federal Reserve, 2002-present

Member, Montgomery Township (NJ) Board of Education, 1994-2000

Visiting Scholar, Federal Reserve System - Philadelphia (1987-89),
Boston (1989-90), New York (1990-91, 1994-96).

Member, Academic Advisory Panel, Federal Reserve Bank
of New York, 1990-2002.

Member, U.S.-Israel Joint Economic Development Group (U.S. State
Department), 1997-2002.

U.S. Census Advisory Board, 1986-89.

**Published
Writings:**

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Publications: Articles

"Measuring the Effects of Monetary Policy: A Factor-Augmented Vector Autoregression (FAVAR) Approach." Quarterly Journal of Economics, February 2005, pp. 387-422. With Jean Boivin and Piotr Elias.

"Monetary Policy Near the Zero Bound: An Empirical Analysis." Brookings Papers on Economic Activity, 2004:2, pp. 1-100. With Vincent Reinhart and Brian Sack.

"Why Does Monetary Policy Affect the Stock Market?." Journal of Finance, June 2005, vol. 60, no. 3, pp. 1221-57. With Kenneth Kuttner.

"Monetary Policy in a Low-Interest-Rate Environment," American Economic Review, Papers and Proceedings, May 2004, vol. 94, no. 2, pp. 85-90. With Vincent Reinhart.

"Monetary Policy in a Data-Rich Environment", Journal of Monetary Economics, April 2003, vol. 50, no. 3, pp. 525-46. With Jean Boivin.

"Is Growth Exogenous? Taking Mankiw, Romer, and Weil Seriously", NBER Macroeconomics Annual, 2001. With Refet Gurkaynak.

"Should Central Banks Respond to Movements in Asset Prices?" American Economic Review, May 2001, vol. 91, no. 2, pp. 253-7. With Mark Gertler.

"Monetary Policy and Asset Price Volatility", presented at Jackson Hole, Wyoming conference of Federal Reserve System. In Federal Reserve Bank of Kansas City, Economic Review, vol. 84, no. 4, Fourth Quarter 1999, pp. 17-52. Also published in Federal Reserve Bank of Kansas City, New Challenges for Monetary Policy, 2000. With Mark Gertler.

"Japanese Monetary Policy: A Case of Self-Induced Paralysis?", in Ryoichi Mikitani and Adam S. Posen, eds., Japan's Financial Crisis and its Parallels to U.S. Experience, Institute for International Economics, 2000.

"The Financial Accelerator in a Quantitative Business Cycle Framework." With Mark Gertler and Simon Gilchrist. In John Taylor and Michael Woodford, eds., Handbook of Macroeconomics, Amsterdam: North Holland, 2000, chapter 21.

"The Liquidity Effect and Long-Run Neutrality", in Charles Plosser and Allan Meltzer, eds., Carnegie-Rochester Conference Series on Public Policy, 1999, vol. 49, no. 1, pp. 149-94. With Ilian Mihov.

"Measuring Monetary Policy", Quarterly Journal of Economics, August 1998, vol. 113, no. 3, pp. 869-902. With Ilian Mihov.

"Inflation Targets and Monetary Policy", Journal of Money, Credit, and Banking, November 1997, vol. 29, no. 4(2), pp. 653-84. With Michael Woodford.

"Inflation Targeting: A New Framework for Monetary Policy?", Journal of Economic Perspectives, Spring 1997, vol. 11, no. 2, pp. 97-116. With Frederic Mishkin.

"Systematic Monetary Policy and the Effects of Oil Price Shocks", Brookings Papers on Economic Activity, 1997:1, pp. 91-142. With Mark Gertler and Mark Watson.

"What Does the Bundesbank Target?" European Economic Review, June 1997, vol. 41, no. 6, pp. 1025-1054. With Ilian Mihov.

"Nominal Wage Stickiness and Aggregate Supply in the Great Depression", Quarterly Journal of Economics, August 1996, vol. 111, no. 3, pp. 853-883. With Kevin Carey.

"The Financial Accelerator and the Flight to Quality", Review of Economics and Statistics, February 1996, vol. 78, no. 1, pp. 1-15. With Mark Gertler and Simon Gilchrist.

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Political**Affiliations**

and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None.

Political**Contributions:**

Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

None.

Qualifications:

State fully your qualifications to serve in the position to which you have been named. (attach sheet)

After obtaining my Ph.D. in economics at M.I.T. in 1979, I was employed as a professor of economics at the Stanford Graduate School of Business (1979-85) and at Princeton University (joint appointment in the economics department and the in the Woodrow Wilson School of Public and International Affairs, 1985-2002). I have published extensively on economic topics (see above). Recognitions of my research accomplishments include numerous prizes and awards (see above). In 2001 I was named by the American Economic Association to serve as editor of the AEA's flagship research journal, the American Economic Review; this appointment signaled the AEA's confidence in my research skills, judgment, and breadth of knowledge (as the Review publishes in all fields of economics). I served as the Director of Monetary Economics and Member of the Business Cycle Dating Committee at the National Bureau of Economic Research, a prestigious nonprofit/nonpartisan organization that promotes economic research.

My extensive experience as a teacher and as the co-author of two bestselling textbooks demonstrates my ability to explain economic concepts clearly and without jargon. My seven years of service as Department Chair at Princeton and my six years on the Montgomery (NJ) Board of Education speak to my ability to manage people and to work in a collaborative setting.

I have nearly three years of policymaking experience as a member of the Board of Governors of the Federal Reserve. In that role I addressed a range of policy issues including consumer protection regulation, payments system issues, international economic policy, and bank supervisory issues as well as monetary policy. As a member of the Board of Governors I spoke frequently in public on a range of economic policy topics.

**Future employment
relationships:**

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

I will resign from Princeton University (from which I am currently on leave without pay) on or about July 31, 2005.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I do not.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes, at the pleasure of the President.

**Potential conflicts
of interest:**

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

Not applicable.

**Civil, criminal and
investigatory
actions:**

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

<u>Organization</u>	<u>Dates</u>
Tau Kappa Epsilon Fraternity, President	1978-79
American Chemical Society (affiliate)	1982-84
Society for Applied Spectroscopy	1982-84
Houston Young Professional Republicans	1984-89
Public Relations Society of America	1996-99
National Association of Government Communicators (Chapter VP)	1996-99

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

(See Attachment #1)

**Government
experience:**

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

7/90 – 7/92	The White House, Office of Presidential Advance
7/92 – 1/93	The White House, Office of Vice Presidential Advance, Deputy Director
1/95 – 2/96	Texas Department of Commerce, Communications Director
2/96 – 6/99	Texas Department of Housing & Community Affairs, Communications Director
1/01 – 1/03	The White House, Deputy Assistant to the President & Director of Presidential Advance
1/03 – 4/05	The White House, Deputy Assistant to the President & Cabinet Secretary

**Published
Writings:**

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

As a spokesperson for two State of Texas agencies (Texas Department of Commerce; Texas Department of Housing & Community Affairs), I was routinely quoted in Texas newspapers as well as creating op-eds related to economic and community development. I also assisted in the development of strategic plans, consolidated plans, and other written reports at both agencies.

Also developed an op-ed that was published by the Houston Chronicle and other Hearst newspapers in January 1993.

**Political
Affiliations
and activities:**

List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

1994	George W. Bush for Governor Campaign, Director of Advance
1995	Director of Events, Texas Inaugural Committee
1996	Volunteer Advance, Dole-Kemp
1999	Director of Events, Texas Inaugural Committee
1999-2000	Director of Advance, George W. Bush for President; Bush-Cheney 2000
2000-2001	Chief Deputy & Director of Events/Operations, Presidential Inaugural Committee

Political

Contributions: Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

Bush-Cheney 2004: \$500. While other contributions to political campaigns and committees are cumulatively in excess of \$500, this is the only single contribution of \$500 or more during the last eight years.

Qualifications: State fully your qualifications to serve in the position to which you have been named.

I spent close to five years in Texas state government, with more than 3 ½ years of that service at the Texas Department of Housing & Community Affairs (TDHCA). TDHCA is one of the largest and most programmatically diverse state housing agencies in the country and administers the following programs and activities: First Time Homebuyers Program (mortgage revenue bonds), Low Income Housing Tax Credits (LIHTC), Community Development Block Grants (CDBG)*, Community Service Block Grants (CSBG), Low Income Home Energy Assistance Program (LIHEAP), Home Investment Partnership Program (HOME), Colonia Initiatives, and regulation of the States' Manufactured Housing industry, to name a few. I have attached a list of some of the legislative and programmatic successes that I played a part in during my tenure. (See Attachment #2).

I also served at the Texas Department of Commerce (now the Texas Department of Economic Development) for more than a year. In my capacity as Communications Director I dealt with policy and legislative issues related to economic development, workforce training, and the travel and tourism industry.

Additionally, from January 2003 until early 2005, I served as Deputy Assistant to the President and Cabinet Secretary and routinely participated in meetings with the President, Vice President, and White House senior staff on a variety of HUD policy issues. These issues included the Administration's efforts to boost homeownership, increase access to affordable housing, and reform both RESPA and the GSEs.

*Was made a separate state agency in 2001

Future employment

relationships: 1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

If confirmed by the Senate, I would continue to be employed by HUD.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I have not received any commitments for employment after I leave government service.

3. Has anybody made you a commitment to a job after you leave government?

I have not received any commitments for employment after I leave government service.

4. Do you expect to serve the full term for which you have been appointed?

If confirmed by the Senate, I would serve at the pleasure of the President.

**Potential conflicts
of interest:**

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None that I am aware of.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

As a former employee of the State of Texas, I continue to participate in (but no longer contribute to) the Employees Retirement System of Texas defined benefits plan.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None that I am aware of.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

While at the Texas Department of Housing & Community Affairs, I traveled to Washington, DC several times between 1996 and 1999 to meet with Members of the Texas Congressional Delegation (and their staff) to seek support on issues and programs related to our agency. Among the issues we sought support were increasing the allocation by which States receive low-income housing tax credits. We also asked for support to increase the size of the private activity bond cap which would allow us to issue additional mortgage revenue bonds aimed at assisting low to moderate income first-time homebuyers.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

Pursuant to an ethics agreement with the Office of General Counsel at HUD, I have agreed to recuse myself from participating personally and substantially in any particular matter that will have a direct and predictable effect on the ability and willingness of the State of Texas pension plan (Employees Retirement System of Texas) to provide me any pension benefit through its defined benefit pension plan.

**Civil, criminal and
investigatory
actions:**

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

No criminal proceedings.

In 1978, I was the defendant in a civil lawsuit resulting from a traffic accident with a fatality (occurred in 1974). The jury ruled in my favor.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None that I am aware of.

ATTACHMENT #1 – EMPLOYMENT RECORD

RE: Brian D. Montgomery

Deputy Assistant to the President and Cabinet Secretary, January 2003 – April 2005, Washington, DC

- Served as a member of the President's senior staff and supervised the division that helped manage the President's relationship with his Cabinet and all Federal agencies in the Executive Branch. Advocated within the White House on behalf of the Cabinet agencies and served as an early warning system in relation to agency initiatives and late-breaking issues for the President and senior White House leadership. Interacted with other White House Offices such as the Chief of Staff, Strategic Initiatives, Communications, and the four policy councils (Domestic Policy Council, National Economic Council, Homeland Security Council, and the National Security Council) on a variety of initiatives to help ensure that agency programs were aligned with the President's agenda. Regularly participated in policy meetings with senior Cabinet officials, the Vice President, and the President. Led the internal Space Shuttle *Columbia* Working Group that was formed immediately following the shuttle disaster. The Group formulated the White House response to all accident-related activities and initiated the review process that ultimately led to the President's 2004 Space Policy that charts a new course for America's space program. Coordinated and helped lead two inter-agency working groups that dealt with relief and reconstruction efforts following the devastating 2004 hurricanes that hit Florida and other states; and a similar collaborative effort following the wildfires that struck California and Arizona in 2003. Served as a member of the President's Management Council, which helps oversee implementation of the President's Management Agenda – an inter-agency strategy for improving the management and performance of the Federal Government. Served as the White House liaison and directed the participation of White House staff in the events around the state funeral of former President Ronald Reagan in June 2004.

Deputy Assistant to the President and Director of Advance, January 2001 – January 2003, Washington, DC

- Managed the division responsible for the development, organization, and implementation of Presidential events both in the United States and overseas. Participated in message development and directed the process that visually communicated the message at Presidential events. Co-directed all international and domestic site surveys in advance of Presidential visits. Traveled extensively with the President throughout the world serving as trip director. Of note, directed the planning and execution of all Presidential events following the attacks on September 11, 2001, as well as the one-year remembrance.

2001 Presidential Inaugural Committee, December 2000 – January 2001

Principal Deputy and Director of Special Events and Operations, Washington, DC

- Managed the largest division responsible for the organization of all inaugural events and activities, which was accomplished in only 31 days. Directed a staff of close to 200 and oversaw all event-related expenditures.

Bush-Cheney 2000, May 1999 – December 2000, Director of Advance, Austin, Texas

- Managed the division responsible for all public events and advance operations. As a member of the campaign senior staff also participated in message development and directed the implementation of the message through campaign events and appearances. Managed close to 150 employees and volunteer advance staff. Traveled extensively with the candidate throughout targeted states.

Texas Department of Housing and Community Affairs, February 1996 – May 1999

Communications Director, Austin, Texas

- Served as the agency's chief spokesperson and director of the division responsible for all external communications to the news media, state legislature, state and federal agencies, housing and community assistance organizations, and other public constituencies. Marketed agency programs and services including the First-Time Homebuyer Program, Community Development Block Grants, HOME Program, Low Income Housing Tax Credits, and Community Service Block Grants. Coordinated and directed the production of printed and displayed communications media including feature stories, newsletters, brochures, billboards, news articles and editorials, public service announcements, and the agency website. Directed the senior management decision-making process regarding all external communications and served as chief agency liaison to the Governor's Office.

Texas Department of Economic Development, February 1995 – February 1996

Communications Director, Austin, Texas

- Served as the agency's chief spokesperson and director of the division responsible for conveying agency information to the business community, media, state and federal agencies, members of the state legislature, and other public sources. Directed all division functions including marketing, media relations, and communications, including speech and editorial development. Consulted other division directors on political and policy issues related to economic development, workforce training, and the travel and tourism industry including participation in the review process for the highly-successful Texas tourism advertising campaign.

George Bush for Governor/Gubernatorial Inaugural Committee, June 1994 –

January 1995, Director of Advance/Director of Events, Austin, Texas

- Managed the division responsible for all public events and advance operations. As a member of the campaign senior staff also participated in message development and directed the implementation of the message through campaign

events and appearances. Also directed all inaugural events and activities on behalf of the Governor-elect.

Taylor-Neumann Public Relations, April 1993 – May 1994, Account Supervisor, Houston, Texas

- Developed, planned, and implemented public and media related initiatives on behalf of corporate clients and governmental organizations. Responsibilities included the development and distribution of news releases and opinion-editorials, media training, and public information campaign management.

Office of the Vice President, The White House, July 1992 – January 1993, Deputy Director of Advance, Washington, DC

- Co-managed a team of more than 60 paid and volunteer advance staff. Reviewed and approved news releases regarding Vice Presidential events and interacted with other senior staff and campaign operatives on issues related to the Vice President's public events. Responsible for the planning and execution of public appearances by Vice President Quayle. Directed and planned media coverage, event structure, and flow. Participated in the decision-making process regarding the Vice President's political agenda and travel schedule.

Office of Presidential Advance, The White House, June 1990 – July 1992, Lead Press Advance Representative, Washington, DC

- Planned and directed media coverage for President George H.W. Bush in public appearances both domestic and abroad. Wrote news releases regarding these events and organized press conferences and other large media events. Conceptualized events and logistics during domestic and international pre-planning site surveys. Interacted on a daily basis with personnel from the U.S. Secret Service, White House Military Office, and White House Communications Agency. Also interacted with State Department staff and foreign security agencies during international visits.

Whittle Communications, LLC, November 1987 – May 1990, Regional Manager, Houston, Texas

- Planned and implemented a regional strategic marketing plan for Channel One, a nationally targeted satellite transmitted news broadcast for secondary school students. Marketing efforts positioned Texas as the number one market for Channel One. Developed and delivered presentations to state and local boards of education, teachers groups, and parent/teacher associations. Also served as regional spokesperson.

Petrochemical and Chemical Processing Industry, 1980 – 1986, Houston, Texas, International Inventory Specialists, Alloy Spectrotest, and Corr Tech, Inc.

- Held managerial and marketing positions in the petrochemical and chemical processing industries, including managing a materials testing laboratory and representing manufacturers of fluid handling equipment.

ATTACHMENT #2 – QUALIFICATIONS (continued from Page 3)

RE: Brian D. Montgomery

Some of the legislative and programmatic successes I contributed to while employed at the Texas Department of Housing & Community Affairs:

- Texas Statewide Homebuyer Education Program (TSHEP) – This homebuyer counseling and education program won a HUD best-practices award in 1999.
- Home of Your Own (HOYO) – Since this home buying initiative was created in 1996, 243 Texans with disabilities have become homeowners through the program. The component of strong homebuyer education has resulted in only one foreclosure – and a success rate greater than 99.5 percent.
- Senate Bill 623 – passed during the 76th Texas Legislature, it requires recipients of state or federal funds from TDHCA for the construction of single family affordable housing for individuals and families of low, very low, and extremely low income to construct the housing in accordance with basic accessibility requirements.
- The Statewide Architectural Barrier Removal Program (SABR) – Established in 1996 as a pilot project, SABR provides funds for the modification of homes occupied by persons with disabilities.
- LIHEAP – Distributed more than \$65 million in LIHEAP funds during 1998 Texas heat wave.
- Texas YouthWorks – Launched in 1998, Texas YouthWorks offers at-risk individuals opportunities for education, learning entry-level construction skills as well as valuable life skills as they construct energy-efficient affordable housing in their communities.
- The Small Towns Environment Program (STEP) – administers grants to eligible cities and counties for solving water and sewer problems with a self-help approach that requires local participation through volunteerism.
- Office of Colonia Initiatives – established in 1997, the Office focuses on programs designed to help improve the quality of life within the States' colonias. Among these is the Contract-for-Deed Conversion program that was implemented in 1998 to help colonia residents convert contracts-for-deed into traditional mortgages. This allowed the residents to build equity in their homes.

BRIAN D. MONTGOMERY

Brian D. Montgomery comes to the U.S. Department of Housing and Urban Development (HUD) from the White House, where he served as Deputy Assistant to the President and Cabinet Secretary from 2003 - 2005. In that role, Montgomery managed the Office of Cabinet Affairs, which serves as the liaison to all the Cabinet members and executive agency heads. As Cabinet Secretary, Montgomery worked to ensure that agency initiatives and programs were effectively communicated to the White House staff, and acted as one of the primary information sources of White House policy and directives for the Cabinet. While serving in the White House, Montgomery routinely participated in meetings with the President, Vice President, and White House senior staff on a variety of HUD policy issues. These issues included the Administration's efforts to boost homeownership, increase access to affordable housing, and reform both RESPA and the GSEs.

Prior to his appointment as Cabinet Secretary, Montgomery served as Deputy Assistant to the President and Director of Presidential Advance from 2001 - 2003. In this capacity, he planned and directed dozens of domestic and international events. Of note, he helped direct the planning and execution of all Presidential events following the attacks on September 11, 2001, as well as the one-year remembrance.

From 1996 until 1999, Montgomery served as the Communications Director at the Texas Department of Housing and Community Affairs (TDHCA). Recognized as one of the largest and most programmatically diverse state housing agencies in the country, TDHCA developed a number of initiatives to improve lives and communities during Montgomery's tenure.

One of these initiatives was the *Home of Your Own Program* (HOYO), which was created in 1996 to expand homeownership opportunities for Texans with disabilities. Designed to include homeownership education, down payment assistance, affordable financing, disability-specific construction modifications, and other supportive services, HOYO helped many Texans overcome the barriers to homeownership. Since the inception of the program, hundreds of Texans with disabilities have become homeowners.

In 1997, TDHCA implemented the Texas Statewide Homebuyer Education Program, which was designed to provide information and counseling to prospective homebuyers, without duplicating the efforts of existing counseling programs. The program achieved immediate success, and in 1999, it won a HUD best-practices award.

During Montgomery's tenure, TDHCA also implemented a number of programs to increase the availability of affordable housing for low-income individuals, and worked to ensure that persons with disabilities had healthy, accessible housing opportunities. Also while serving, TDHCA undertook several initiatives designed to improve their fair housing efforts. These initiatives included the establishment of the Office of Colonia Initiatives, and increased marketing of the First Time Homebuyer Program to minority populations.

Immediately following the Shuttle *Columbia* accident in February 2003, Montgomery was asked to lead a White House working group to monitor all facets of the accident investigation. This ultimately led to the process that developed the President's vision for space exploration announced in January 2004. For this effort, Montgomery was awarded the NASA Exceptional Service Medal in June 2004. And following the death of President Ronald Reagan in June 2004, Montgomery served as the primary White House contact for all activities and events surrounding the State Funeral.

A graduate of the University of Houston, Montgomery and his wife Katy reside in Virginia. Katy is employed with the U.S. Department of Homeland Security.

May 2005

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR BUNNING
FROM BEN S. BERNANKE**

Q.1. Will you stand up to the President when you believe he is wrong?

A.1. Consistent with the traditions of the Council of Economic Advisers, I will provide the Administration with objective, professional advice on matters of economic policy, even if that advice is politically unpopular or conflicts with the views of the President or other members of the Administration. If I become aware of policy proposals that I believe to be inconsistent with sound economics, I will make my views known to the President and other appropriate officials, and I will encourage other Council Members to do the same.

Q.2. Did you stand up to Chairman Greenspan when you believed he was wrong?

A.2. In my view, Members of the Board of Governors best serve the country and the Federal Reserve itself by making independent judgments on all matters coming before the Board. During my time on the Board, I always endeavored to base my analyses and policy recommendations on the facts and on my own understanding of the issues at hand, without concern about whether others would necessarily agree with me. When I disagreed with Chairman Greenspan, other Board Members, or with other Members of the Federal Open Market Committee, I made my views known and tried to make the case for my position in terms of sound economic analysis.

Q.3. Can you cite any public disagreements between yourself and Chairman Greenspan?

A.3. During my time at the Federal Reserve, I often publicly advanced my own independent views on policy issues, through public speeches for example. One substantive policy issue on which I have publicly disagreed with the Chairman, and on which I have spoken on a number of occasions, is the question of whether the Federal Reserve should adopt a medium-term, quantitative objective for inflation, as has been done by many other central banks. Chairman Greenspan has indicated that he does not think that adopting an inflation objective is appropriate for the Federal Reserve. In my view, providing quantitative information to the markets about the Fed's medium-term objective for inflation would serve to reduce uncertainty, improve the clarity of Fed communication, and help to further anchor the public's long-run inflation expectations. Greater clarity and better-anchored inflation expectations would in turn promote the Federal Reserve's ultimate objectives of maximum sustainable employment, price stability, and low, long-term interest rates.

Q.4. How many times did you vote against Chairman Greenspan?

A.4. By custom and tradition, the Federal Open Market Committee operates by consensus, and formal dissents are rare. In that tradition, during my time on the Committee I focused on trying to influence the Committee's decisions by presenting persuasive economic arguments in the meetings. I believe that this approach allowed me to be an effective Member of the Committee. At the conclusion of each meeting in which I participated, I found that I was comfortable with the consensus that emerged. For that reason, during

my tenure, I did not dissent from any monetary policy decision of the FOMC. On every occasion, I voted for what I believed to be the best policy alternative at that particular time.

**RESPONSE TO A WRITTEN QUESTION OF SENATOR REED
FROM BRIAN D. MONTGOMERY**

Q.1. On numerous occasions (most recently in the House Appropriations Committee's fiscal year 2005 VA-HUD Report (H.Rpt. 108-674, page 67)), HUD was directed to come forward with programmatic guidance for the Section 811 "mainstream" tenant-based assistance program. This guidance was to include: (a) Targeting of rental assistance consistent with longstanding 811 targeting criteria, that is targeting to individuals with the most severe disabilities; (b) Maintenance of these vouchers upon turnover; and (c) Retention of a meaningful role for nonprofit disability groups in the program; (d) In addition, Congress has acknowledged concerns regarding the diversion of Section 811 Tenant-Based Assistance to the Section 8 Voucher program. If confirmed, will you commit to moving forward in developing this long-overdue, programmatic guidance for the 811 Tenant-Based program?

A.1. The Department has addressed points (a), (b), and (c) through its publication on February 1, 2005 of Notice PIH 2005-5 (HA). Paragraph 6 of this Notice specifies that vouchers funded with 5-year budget authority under the Section 811 program must be issued to elderly and non-elderly disabled families initially and upon turnover. The Notice indicates this requirement is applicable during the initial 5-year funding increment, as well as upon renewal of that funding. Paragraph 6 of Notice PIH 2005-5 (HA), encourages PHA's to utilize "local supportive service or disability organizations" to assist families in locating accessible housing units, and for counseling and assistance with security deposits, moving expenses, etc. The Notice indicates that "these organization should include State protection and advocacy agencies, Centers for Independent Living, State Medicaid agencies, and disability advocacy groups that represent individuals with a variety of disabilities. You should also note that on August 8, 2004, the Department issued Notice PIH 2004-13 (HA) that requires public housing agencies, (PHA) to report to HUD on their issuance of Section 811 funded vouchers to disabled families, thereby allowing HUD to track the usage of these vouchers.

Finally, I am committed to work within the Department to provide additional guidance for the Section 811 Tenant-Based program, if necessary.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES
FROM BRIAN D. MONTGOMERY**

Q.1. I want to ask you some questions about FHA and its commitment to support cooperative homeownership. As background, let me lay some groundwork:

As you may know, cooperatives are a form of multifamily homeownership. In that way, they are similar to condominiums, although they are less widely known. Cooperatives are eligible users of all of the FHA multifamily insurance programs open to rental

properties, as well as the Section 213 Multifamily Insurance program, which is limited to cooperative use.

Limited equity cooperatives (which limit the resale prices of individual units to keep them affordable to successive generations of owners) provide many of the same advantages provided by homeownership generally:

- They offer co-op owners control of a critical element of their lives—their housing;
- They demonstrate a lower default rate compared to rental housing;
- They develop greater affordability over time than rental properties, with monthly charges on the order of 15 percent lower;
- They attract residents with a greater mix of income levels;
- Residents tend to have longer tenure in limited equity cooperatives than comparable rental properties, increasing community stability; and,
- Cooperatives develop higher levels of community participation.

Affordable market rate cooperatives, whose prices are determined by the marketplace and where resale prices are not limited, also provide substantial advantages:

- Economies of scale lower per unit costs;
- Risk spreading across the entire membership cushions the financial shock of major repairs;
- Cooperatives can use blanket loans (loans secured by the entire cooperative development) to finance major rehabilitation projects;
- Cooperatives have effective tools to ensure owner occupancy (unlike affordable condominiums, which often end up with high levels of absentee ownership).

The Section 213 program, which exists to provide insurance for cooperative blanket loans, is a very successful program within FHA. Importantly, the program requires no credit subsidy.

Unfortunately, HUD has failed to support adequately the FHA program for cooperative homeownership.

What is your view of this program? Do you agree that cooperative housing is a good vehicle to achieve homeownership for many people?

A.1. I agree that cooperative housing is a good vehicle for prospective homebuyers in that they provide some of the tax and equity benefits of single-family homes. If confirmed, I would fully support using all of the programmatic tools the Department has to promote affordable housing. However, I think any commitment to devote additional resources to mortgage insurance for cooperatives must be viewed in the overall context of needs and available resources.

Q.2. Specifically, would you make the FHA Section 213 (co-op blanket lending) program a part of the Multifamily Accelerated Processing (MAP) Program on a timely basis? This has not been done, despite what I understand is a commitment to do so by former Commissioner Weicher.

A.2. In my current capacity, I have been unable to confirm any such commitment. However, if confirmed, I will look into the matter and get a status report.

Q.3. Further, FHA recently commissioned a study of housing co-ops by the Hollister Group that has not yet been released. Would you release this study?

A.3. If confirmed, and given the opportunity to review the study in an official capacity, I would commit to discussing with staff the potential release of the report to the public.

Q.4. In addition, I understand that some HUD area offices have refused Multifamily Accelerated Processing under any FHA programs when the borrower seeks to form a co-op, even though co-ops are clearly eligible users. Would you also make MAP available to co-op borrowers in all FHA programs?

A.4. I have not been made aware of any across-the-board policy to exclude cooperatives but, if confirmed, I would further look into the matter and ensure that our field offices are processing co-op applications in accordance with the Department's program guidelines.

In regard to making MAP available to co-op borrowers in all FHA programs, it is my understanding that the description of eligible borrowers is per statute and currently, the only program available to cooperatives is Section 213.

Q.5. The FHA Section 203(n) program is intended to provide FHA-insured share loans to individuals seeking to purchase an interest in a co-op. Despite clear statutory authority, the regulations for this program are very old and make it nearly impossible to use this program. Would you be willing to update the 203(n) regulations to make co-op share loans readily available through FHA?

A.5. HUD acknowledges co-op homeownership has not received full support by the Department. The Department is analyzing the regulations to create a more effective utilization of its cooperative homeownership program. FHA will update the regulations to permit insurance on co-ops to comply with the statute regarding the blanket mortgage.

Q.6. As we discussed at your hearing, I have a particular interest in senior housing. Your statement made it clear that you share this interest. I think it is particularly important to enable seniors to age in place as long as possible. So-called "reverse mortgages" are a very good way for seniors to do this, as it allows them to tap their home equity for living expenses, within carefully crafted limits. Unfortunately, FHA has not yet issued regulations to enable the use of insured Home Equity Conversion Mortgages (HECM's) to allow seniors to tap their home equity while remaining in cooperative apartments. Would you be willing to issue regulations that will make HECM's available for seniors residing in co-ops?

A.6. I am aware there are legal obstacles with the first lien requirement as it relates to the cooperative blanket mortgage and the National Housing Act requirement of FHA to be in first lien position. If confirmed, I am committed to working with the Department's Office of General Counsel to overcome this barrier and pursue implementing regulatory authority for insuring cooperatives for HECM's.

Q.7. A number of for- and not-for-profit developers have come forward with some creative ideas about how to redevelop and preserve multifamily FHA-insured Section 8 project-based developments. In

some cases, these ideas involve reducing the density of the assisted housing and bringing market rate housing into the development. This may require building on adjacent or nearby parcels of land where such property is included in the larger development. Unfortunately, HUD currently argues that no subsidy, either FHA Upfront Grants or Section 8, may be used in a development in which the new project goes beyond the “footprint” of the original FHA-insured property. This makes it very difficult to preserve all the assisted units and achieve the mixed-income communities that developers now seek to create. Will you commit to looking into this issue and trying to have FHA show additional flexibility in these cases, where possible?

A.7. I am firmly committed to preserving the FHA affordable rental housing stock and, if confirmed, would make this one of my top priorities. I understand the challenges in attempting to preserve all the assisted units while trying to achieve mixed-income communities and would certainly look into the issues you raise and give them every consideration. I believe that we should do all that is practical and fair to all within the statutory authorities of HUD and provide the utmost flexibility within those authorities. If confirmed, I would also look forward to working with Congress and our industry partners to develop creative solutions to achieve the successful preservation and/or redevelopment of these housing units.